



NAVAL POSTGRADUATE SCHOOL

THESIS

**ASEAN+3: THE INSTITUTIONALIZATION OF ASIAN
VALUES**

by

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December 2003

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REPORT DOCUMENTATION PAGE			<i>Form Approved OMB No. 0704-0188</i>	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.				
1. AGENCY USE ONLY (Leave blank)		2. REPORT DATE December 2003	3. REPORT TYPE AND DATES COVERED Master's Thesis	
4. TITLE AND SUBTITLE: ASEAN+3: The Institutionalization of Asian Values			5. FUNDING NUMBERS	
6. AUTHOR(S) Dzulkarnain Ahmad				
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A			10. SPONSORING/MONITORING AGENCY REPORT NUMBER	
11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.				
12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release; distribution is unlimited			12b. DISTRIBUTION CODE	
13. ABSTRACT (maximum 200 words) In the wake of the 1997-1998 Asian economic crisis, the leaders of East Asia came together to establish the ASEAN+3 forum; a forum to accommodate thirteen countries heterogeneous in nature with diverse political, economic, social and cultural backgrounds. Some political scientists interpreted the establishment of the ASEAN+3 as the emergence of a new form of regionalism. This new regionalism represents a clear break from the region's strong history of multilateralism. The countries of East Asia have also been exploring ways of expanding intra-regional trade including the establishment of regional trade agreements (RTAs) such as the ASEAN+3, planning to establish an East Asia Free Trade Area (EAFTA) as well as negotiating bilateral trade agreements (BTAs). This thesis hypothesizes that the philosophy of Asian values and the 1997-1998 Asian economic crisis stimulated the creation of the ASEAN+3. It is important to understand this philosophy for it is likely to influence the ASEAN+3 in the future. The understanding of whether the Asian economic crisis spurred the creation of the ASEAN+3 is crucial to determine whether the ASEAN+3 will play an economic role in the region.				
14. SUBJECT TERMS ASEAN+3, Asian Values, Asian Economic Crisis, Asian Economic Development Model, East Asia Free Trade Area (EAFTA), Crony Capitalism, ASEAN Way, Politics of Resentment			15. NUMBER OF PAGES 95	
			16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UL	

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)
Prescribed by ANSI Std. Z39-18

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ASEAN+3: THE INSTITUTIONALIZATION OF ASIAN VALUES

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Submitted in partial fulfillment of the
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES
(SECURITY BUILDING IN POST-CONFLICT ENVIRONMENTS)**

from the

**NAVAL POSTGRADUATE SCHOOL
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ABSTRACT

In the wake of the 1997-1998 Asian economic crisis, the leaders of East Asia came together to establish the ASEAN+3 forum; a forum to accommodate thirteen countries heterogeneous in nature with diverse political, economic, social and cultural backgrounds. Some political scientists interpreted the establishment of the ASEAN+3 as the emergence of a new form of regionalism. This new regionalism represents a clear break from the region's strong history of multilateralism. The countries of East Asia have also been exploring ways of expanding intra-regional trade including the establishment of regional trade agreements (RTAs) such as the ASEAN+3, planning to establish an East Asia Free Trade Area (EAFTA) as well as negotiating bilateral trade agreements (BTAs). This thesis hypothesizes that the philosophy of Asian values and the 1997-1998 Asian economic crisis stimulated the creation of the ASEAN+3. It is important to understand this philosophy for it is likely to influence the ASEAN+3 in the future. The understanding of whether the Asian economic crisis spurred the creation of the ASEAN+3 is crucial to determine whether the ASEAN+3 will play an economic role in the region.

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ACKNOWLEDGMENTS

The author would like to express his heart-felt gratitude to Professor Gaye Christoffersen and Professor Robert McNab for their guidance and instruction not only during the writing of this thesis, but throughout his studies at the Naval Postgraduate School in Monterey, California. He owes an enormous debt of gratitude to them for their time, insight, and advice during this project.

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I. INTRODUCTION

...Asians demonstrate a cultural predisposition towards stable leadership rather than political pluralism, preferring continuity to change in government. They have suggested, too, that Asians have an intuitive respect for authority and social harmony, and thus show a proclivity for consensus as opposed to a tendency towards dissent or confrontation. The point was extended to suggest that Asians, therefore, would accept a strong, even harsh, government so long as its policies and actions continued to ‘deliver economic prosperity’. Thus, the proponents of Asian values maintained that Asians tolerate, if not welcome, a broad and penetrating state and bureaucratic intervention in social and economic affairs, because Asians have a greater concern for economic well being than civil liberties and human rights. Finally, Asians are supposedly communitarian rather than individualist, and place the welfare and collective good of the community over individual rights”- Khoo Boo Teik¹

A. MOTIVATION

In the wake of the 1997-1998 Asian economic crisis, the leaders of East Asia came together to establish the ASEAN+3 forum²; a forum to accommodate thirteen countries heterogeneous in nature with diverse political, economic, social and cultural backgrounds. Some political scientists interpreted the establishment of the ASEAN+3 as the emergence of a new form of regionalism³. This new regionalism represents a clear break from the region’s strong history of multilateralism. The countries of East Asia have also been exploring ways of expanding intra-regional trade including the establishment of regional trade agreements (RTAs) such as the ASEAN+3, planning to establish an East Asia Free Trade Area (EAFTA) as well as negotiating bilateral trade agreements (BTAs)⁴.

¹ Khoo Boo Teik, “The Value(s) of a Miracle: Malaysian and Singapore Elite Constructions of Asia”, *Asian Studies Review*, Vol. 23, No. 2, (June 1999), p. 182.

² Association of Southeast Asia Nations (ASEAN) consists of 10 member states: Indonesia, Thailand, Malaysia, The Philippines, Singapore, Brunei, Vietnam, Laos, Myanmar and Cambodia. The “+3” are the Northeast Asia countries of China, Japan and South Korea.

³ Richard Stubbs, “*ASEAN PLUS THREE: Emerging East Asian Regionalism?*”, *Asian Survey*, Vol. 42, No. 3 (2002), pp. 440-455.

⁴ Charles Harvie and Hyun-Hoon Lee, “*New Regionalism in East Asia: How Does It Relate to the East Asian Economic Development Model?*”, *ASEAN Economic Bulletin*, Vol. 19, No. 2 (2002), pp. 123-140.

The ASEAN+3 is an interesting case of institution building in that it is constructed around the core of an already existing institution, ASEAN, which was founded in 1967. In this way, ASEAN appears to be evolving like the European Union (EU) in terms of economic cooperation. With respect to security arrangements, however, the ASEAN+3 appears to be evolving more like the North Atlantic Treaty Organization (NATO). This dual-track evolution is, to put it mildly, interesting.

B. ASIAN VALUES

What are Asian values? Merely the mention of the philosophy of Asian values appears to spark disagreement among academicians and policy makers alike. The strongest proponents argue that the philosophy of Asian values is a set of common principles among the Asian nations, while its detractors view it as a screen for such practices as corruption, paternalism, and cronyism. To understand whether this philosophy influenced the establishment of the ASEAN+3, we must first briefly review the philosophy itself.

The most prominent of the advocates of Asian values can be grouped in three different schools namely, the Singapore school, the Mahathir school and the China school.⁵

The Singapore school seeks to incorporate Confucianism into the philosophy of Asian values.⁶ Confucianism places great emphasis on forms of conduct within relationships, personal virtue, obedience to authority, family loyalties, and education. The current Prime Minister of Singapore, Goh Chok Tong, stated that in order for Singapore to continue its success, correct economic policies alone are not enough. Non-economic values such as a sense of community and nationhood, a discipline and hard working people, strong moral values and family ties are also crucial.⁷ The Singapore school also gives priority to societal needs over individual rights.

⁵ P. Mendes, "Asian Values and Human Rights: Letting the Tigers Free", [http://www.uottawa.ca/hrrec/publicat/asian_values.html], Accessed 15 June 2003.

⁶ Michael D. Barr, "Lee Kuan Yew and the 'Asian Values' Debate", *Asian Studies Review*, Vol. 24, No. 3, (September 2000), pp. 309-334.

⁷ Goh Chok Tong, "Social Values, Singapore Style", *Current History*, (December 1994), p. 417.

Another aspect of the Asian values debate, which has attracted strong arguments from many western and some eastern commentators, is the system of government. Lee Kuan Yew, ex-prime minister of Singapore, is one of the main architects of the Asian values debate and has argued for a paternalistic illiberal state. He claimed that a paternalistic government is a necessity for Singapore to be able to take the strong measures to achieve economic growth. The multicultural nature of society is another basis of argument that supports Singapore's need for a strong paternalistic state in order to overcome racial, ethnic and religious tensions within the country.

The Mahathir school of Asian values, named after the former Prime Minister of Malaysia, Dr. Mahathir Mohamed, recognizes most of the Singapore school's values but stresses the need for national stability and economic prosperity. The Mahathir school also emphasizes the "Asia-as-civilization" thesis.⁸ Stability and enforced social cohesion in a heterogeneous society are viewed as crucial to economic development. Once the values have been internalized, as this argument goes, society will be more effective and successful. Another aspect of the Mahathir School is an emphasis on the work ethic. Mahathir's "look east" policy clearly portrays the emphasis on the work ethic. He called upon Malaysians to adopt the Japanese work ethic to prepare Malaysia for heavy industries, which he argues are more demanding and competitive⁹.

The Chinese school of Asian values includes Confucianist principles and emphasizes the right to subsistence and economic development. The Chinese model places little value on civil liberties and human rights, arguing that these rights can only be enjoyed once citizens are not poor or starving. The right to subsistence and economic development is a precondition to all other rights.¹⁰ Therefore, in order to achieve economic development, the Peoples Republic of China stresses the importance of political stability as a precondition for economic development.¹¹ Individuals must put the

⁸ Alan Dupont, "Is There an 'Asian Way'?" *Survival* 38, No. 2, (Summer 1996), pp. 14-15.

⁹ Khoo Boo Teik, "The Value(s) of a Miracle: Malaysian and Singaporean Elite Constructions of Asia", *Asian Studies Review*, Vol. 23, No. 2, (June 1999), pp. 181-192.

¹⁰ P. Mendes, "Asian Values and Human Rights: Letting the Tigers Free", [http://www.uottawa.ca/hrrec/publicat/asian_values.html], Accessed 15 June 2003

¹¹ Lily Zubaidah Rahim, "In Search of the 'Asian Way': Cultural Nationalism in Singapore and Malaysia", *Commonwealth & Comparative Politics*, Vol. 36, No. 3, (November 1998), pp. 54-73

state's rights before their own. The Chinese school also argues that, owing to tremendous differences in historical background, social systems, cultural traditions and economic development, countries differ in their understanding and practice of human rights. It is unfair and "undemocratic" to treat the western notions of civil liberties and human rights as universal values, which all individuals are entitled to enjoy. This argument is the basis of China's Asian values debate¹². The three schools of Asian values as mentioned above could be merged to give a holistic picture of what is meant by Asian values. The combinations of all the values explain that.

The three schools of Asian values can be merged to provide a unified definition of the philosophy of Asian values. The three schools share a common emphasis on, first, a respect for hierarchy and authority. Second, the schools emphasize the need for centrality and cohesion of the family. Third, social consensus is preferred over conflict in social relations. Fourth, there is an emphasis on law and order and the desire not to have individual liberty undermine the security of the nation. Fifth, political stability is important to promote economic and social development. Sixth, traditional values and cultures, which do not impede development and progress, are to be maintained. Finally, high moral and religious values, education, and self-discipline are crucial to economic development.¹³ In this thesis, we employ the common principles of the various schools when we refer to the philosophy of Asian values.

The Asian values argument gained credibility during the 1980s and 1990s economic boom in East Asia. However, in 1997, the philosophy of Asian values appeared to be severely discredited by the Asian economic crisis. Some western observers argued that the policies of Asian governments, which mirrored the philosophy of Asian values, caused the economic crisis. As such, the Asian economic crisis highlighted the hypocrisy of the philosophy of Asian values argument by exposing the underlying weaknesses of the Asian economies.

¹² Michael D. Barr, "Lee Kuan Yew and the 'Asian Values' Debate", *Asian Studies Review*, Vol. 24, No. 3, (September 2000), p. 310.

¹³ Alan Dupont, "Is there an 'Asian Way'?", *Survival* 38, No. 2, (Summer 1996), pp. 16-17.

In spite of the criticisms of the philosophy of Asian values, the proponents of Asian values, including the former Prime Minister of Singapore Lee Kwan Yew and Prime Minister Mahathir Mohamed of Malaysia, still believe that the philosophy can assist the Asian economies in recovering from the economic crisis. They claim that the western democracies have shifted too much in favor of individual rights and social entitlements over the rights of the community and the social obligations of the individual to the community. This philosophical approach, in turn, hampered the economic performance of the state. Proponents of Asian values argue that these values are the root of Asia's remarkable postwar success.¹⁴ The Asian economic miracle provided the empirical evidence to support their arguments. The Asian economic crisis, which ended in 1999, cannot be used, as this argument goes, to reject outright a philosophy that promoted several decades of economic growth.

The proponents of liberal democracy rejected these arguments. They argued that non-democratic government leaders were using the Asian cultural values argument to legitimize their non-democratic governance practices. The Asian economic crisis, as this argument goes, exposed the hypocrisy of the proponents of the philosophy of Asian values. Many western observers decried the Asian economies for "crony capitalism," ridiculing this as an inevitable byproduct of the philosophy of Asian values. Mortimer Zuckerman wrote, "Asian values have become Asian liabilities"¹⁵. Mark R. Thompson furthered this line of reasoning; "the discourse contrasting the defects of 'Western' individualism and democracy with the virtues of 'Asian' communitarianism and good governance, which blossomed during East and Southeast Asia economic boom, has withered since the financial bust of 1997-1998"¹⁶.

C. ASEAN+3

At the same time that the proponents of Asian values were under attack and the Asian states were undergoing economic stress, the perception rose that the West was exacerbating the Asian economic crisis. Policy advice provided by international

¹⁴ Fareed Zakaria, "A Conversation with Lee Kwan Yew," *Foreign Affairs*, Vol. 73, No. 2, (March-April 1994): pp. 109-127.

¹⁵ Mortimer Zuckerman, "Japan Inc. Unravels: How Asian Values Have Becomes Asian Liabilities," *U.S. News & World Report*, 17 August 1998.

¹⁶ Mark R. Thompson, "Whatever Happened to 'Asian Values'?" *Journal of Democracy*, Vol. 12, No. 4, October 2001, pp. 154-165.

institutions, to include the International Monetary Fund and the World Bank, appeared to be flawed.¹⁷ This belief fueled the “politics of resentment” among the East Asia states and led to the establishment of the ASEAN+3.¹⁸ The ASEAN+3 can be thought of as the Asian response to the Asian economic crisis.

Some observers see the ASEAN+3 as a re-articulation of the philosophy of Asian values. Mark Beeson noted:

Certainly, the ASEAN+3 may provide a shell within which East Asian versions of capitalist organization may continue. It may even provide a platform for a re-articulation of the so call ‘Asian values’ discourse which was such a prominent and distinctive part of Southeast Asia’s identity during the boom years¹⁹.

Despite the severe economic crisis, the Asian values discourse, instead of withering away, may gain rather than lose momentum in the coming decades.²⁰ Contrary to the negative notions portrayed by some observers, this thesis argues that the philosophy of Asian values has had some positive effects. The establishment of the ASEAN+3 is the first step taken by leaders of East Asia to closer economic and social cooperation. A more stable East Asia region would lessen the possibility of armed conflict between the member states. Political stability and integration would also contribute to economic growth. Detractors aside, this thesis argues that the philosophy of Asian values has promoted economic development and this raised the standards of living throughout the East Asian Region.

This course of research will not only provide readers with a better understanding of the ASEAN+3 but also a systematic discussion of its potential and weaknesses. The examination of the Asian economic crisis will also provide readers with

¹⁷ Richard Stubbs, “ASEAN Plus Three: Emerging East Asian Regionalism” *Asian Survey*, Vol. XLII, No. 3, (May/June 2002), pp. 440-455.

¹⁸ Richard Higgott, “The Asian Economic Crisis: A Study in the Politics of Resentment,” *New Political Economy* Vol. 3, No. 3, (November 1998), pp. 333-356. ASEAN+3 consists of all Southeast Asia states (10 states), China, Japan and South Korea. It is an economic cooperation between these states. The establishment was proposed in 1997 but was formally established in 1999.

¹⁹ Mark Beeson, ‘Southeast Asia and the Politics of Vulnerability’ *Third World Quarterly*, Vol. 23, No. 3, (2002) pp. 549-564.

²⁰ Anthony Milner, “What Happened to Asian Values”, in David Goodman and Gerald Segal, eds. “Beyond the Asia Crisis”, Rutledge, (1999), p. 13.

some lessons learned. Furthermore, given the on-going debate on democracy and Asian governments, this research will also help readers to better understand Asian cultural values and whether Asian values are compatible with democratic governance.

D. THESIS STATEMENT

This thesis hypothesizes that the philosophy of Asian values and the 1997-1998 Asian economic crisis stimulated the creation of the ASEAN+3. If the philosophy of Asian values promoted the creation of the ASEAN+3, then it is important to understand this philosophy for it is likely to influence the ASEAN+3 in the future. If the philosophy of Asian values is merely a set of values and not policies, then it is important to illustrate the independence of the ASEAN+3 from this set of “common values”. Likewise, the future development of the ASEAN+3 is likely to depend upon economic as well as political issues. Understanding whether the Asian economic crisis spurred the creation of the ASEAN+3 is crucial to determine whether the ASEAN+3 will play an economic role in the region.

The intention is not to discuss in detail the entire Asian values debate and the Asian economic crisis. The scope of this paper is limited to the debate after the 1997-1998 Asian economic crisis and focuses on examining the effects of Asian values and the economic crisis on the creation of the ASEAN+3 and its activities.

E. STRUCTURE OF THE THESIS

Chapter II discusses the establishment of ASEAN and its role in the East Asia region. It also discusses the events that led to the creation of the ASEAN+3. Chapter III reviews the literature of the 1997-1998 Asian economic crisis and discusses whether Asian economic crisis influenced the establishment of the ASEAN+3. The Asian economic crisis adversely affected the East Asia countries, and appeared to lead these states to enhance economic cooperation. The unanswered question is whether this cooperation was, in part, influenced by the philosophy of Asian values, and, if so, to what extent.

Chapter IV reviews the literature on the philosophy of the Asian values. The review of the literature provides an examination of the arguments for and against the philosophy of Asian values. East Asia regionalism will be analyzed and discussed as to whether the philosophy of Asian values influenced the establishment of the ASEAN+3.

Finally, Chapter V provides recommendations for policy options with respect to the further development of the ASEAN+3 and whether the philosophy of Asian values should play a role in this development. Recommendations for future research on this subject are also discussed.

II. THE ESTABLISHMENT OF ASEAN, ITS AIM AND THE ESTABLISHMENT OF ASEAN+3

A. INTRODUCTION

The Association of Southeast Asia Nations (ASEAN) has undergone various changes since its advent in August 1967. The past three decades have seen ASEAN evolve into a respectable regional institution. An understanding of ASEAN's historical background and its current role is important since ASEAN is now one of the most important institutions in the Southeast Asia region.

This chapter examines the establishment of ASEAN and the ASEAN+3. It discusses the evolution of ASEAN and highlights some of the important aspects of the decision-making process adopted by ASEAN known as the "ASEAN Way". It also discusses the principle of non-interference professed by ASEAN in their intra and inter-regional relationships.

The first section of the chapter discusses the historical background of ASEAN with specific focus on its establishment and aims. The second section examines the evolution of ASEAN from its five founding members to the present membership consisting of 10 states. Next, the "ASEAN Way" is examined and discussed aspects of ASEAN security and economic cooperation. Finally, the establishment of the ASEAN+3 is discussed focusing on the Joint Statement made by the ASEAN leaders and the leaders of China, Japan and South Korea. The final report of the East Asia Study Group and its recommendations is also examined.

B. HISTORICAL BACKGROUND

The Southeast Asia Region covers an area of 1,740,000 sq. mi.²¹ and consists of ten states: Indonesia, Thailand, Malaysia, The Philippines, Singapore, Brunei, Vietnam, Laos, Myanmar and Cambodia. These countries have diverse political, economic, social and cultural backgrounds. The populations of most Southeast Asia states are multi-racial

²¹ [<http://www.lupinfo.com/encyclopedia/S/SthEAs.html>], Accessed 5 October 2003.

and multi-religious. The total population of the region is approximately 500 million²². All the Southeast Asia states, except for Thailand, have one thing in common: they were at one time a colony of at least one western power.



Figure 1. The Southeast Asia Region.

In the Post-World War II era, these states obtained their independence either through peaceful means or armed struggle. Indonesia fought and obtained its independence from the Dutch in 1945. Vietnam and Laos obtained their independence from the French also in 1945. The Philippines obtained its independence from the United States in 1946. Burma (Myanmar) became independent in 1948. Cambodia negotiated its independence from the French in 1953 and Malaya (Singapore was part of Malaya) negotiated for its independence from the British in 1957, and after eight years of independence, Singapore opted for separation from Malaysia in 1965. The last of the Southeast Asia states to negotiate its independence was Brunei in 1984²³.

The post World War II period also saw the region divided by an ideological conflict between Communism and Capitalism and wars between Vietnam, Laos, Myanmar and Cambodia. During this period, Malaysia, Thailand, Indonesia, Singapore

²² Ibid.

²³ D. R. SarDesai, 1989, *Southeast Asia Past & Present*, San Francisco, Westview Press.

and the Philippines were non-communist states while Vietnam, Laos, Myanmar (Burma) and Cambodia were influenced and inclined towards Communism. The political and economic situation was, to put it mildly, unstable. There were many territorial disputes between the Southeast Asia states, some of which still remain unresolved to this day.

The concern over the expansion of Communist ideology into Southeast Asia led the leaders of the Federation of Malaya, Thailand and the Philippines to form the Association of Southeast Asia (ASA) in 1961. The territorial claims over Sabah²⁴ between Malaysia and the Philippines, however, led to the demise of the ASA in 1962. Diplomatic ties between Kuala Lumpur and Manila were severed between 1962-66. Consequently, President Macapagal's idea of a grouping between Malaya, Philippines and Indonesia (MALPHILINDO) was stillborn. Also, around the same time, there were numerous other conflicts, to include the confrontation²⁵ between Indonesia and Malaysia, the separation of Singapore from Malaysia in August 1965, the escalating war in Vietnam and the Cultural Revolution in China.

In spite of all these problems, the Association of Southeast Asia Nations (ASEAN) was formed on 8 August 1967. ASEAN may not have achieved a European Union (EU) style of integration. However, ASEAN has successfully created an acceptable level of unity among its members. Since its inception, ASEAN has played a major role in the establishment of other organizations such as the ASEAN Regional Forum (ARF), the Asia Pacific Economic Cooperation Forum (APEC), the Asia-Europe Meeting (ASEM) and the ASEAN+3. ASEAN's success in creating unity from diversity can be attributed to the practice of the "ASEAN Way"²⁶ in their intra and inter-regional relationships. The principle of non-interference in the internal affairs of its members and

²⁴ Sabah is a state situated on the Borneo Island. Sabah opted to join the Federation of Malaysia in 1965. The Philippines claim that Sabah is part of their territory inherited from the Sultanate of Sulu.

²⁵ The formation of the Malaysian federation (Singapore, Sabah and Sarawak joined Malaya to create a new state: Malaysia) led to Indonesia's violent opposition to the new state and the Western Powers' attempts to deal with the resulting conflict.

²⁶ "ASEAN Way" is a distinct approach adopted by ASEAN leaders in their inter-state relations and regional cooperation. It consists of avoidance of formal mechanisms and legalistic procedures for decision-making, and reliance on consensus to achieve goals. It also emphasizes quiet diplomacy and rejection of adversarial posture in negotiations.

consensus decision-making process has been crucial to maintaining ASEAN cohesion. ARF, APEC, ASEM and the ASEAN+3 also adopted the “ASEAN WAY” in their decision-making process²⁷.

1. The Establishment of ASEAN and Its Aim

The countries of Southeast Asia share a primary responsibility for strengthening the economic and social stability of the region and ensuring their peaceful and progressive national development and ... they are determined to ensure their stability and security from external interference in accordance with the ideals and aspirations of their peoples. - Preamble to Bangkok Declaration²⁸.

The founding members of ASEAN (Indonesia, Malaysia, the Philippines, Singapore and Thailand) established the association in 1967 with a vision that all the countries in Southeast Asia should cooperate actively towards peace, stability, progress and prosperity. It was a bold vision because at that time the region was badly divided by ideological conflict and war. Internal insurgencies and economic hardships forced countries in the region to spend a great deal of their scarce resources on defense and to depend on external powers for security and aid. Territorial disputes and racial tensions created suspicion and aggravated distrust between neighbors and prolonged the fragmentation of Southeast Asia.

ASEAN was founded to provide a framework and mechanism for regional cooperation. The ASEAN Declaration was published in Bangkok on 8 August 1967. This Bangkok Declaration affirmed the founding members’ determination to ensure their stability and security from external interference and to preserve their national identities. ASEAN’s three aims are:

- To accelerate the economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South-East Asian Nations;
- To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter; [and]

²⁷ Linjun Wu, “East Asia and the Principle of Non-Intervention: Policies and Practices”, Maryland Series in Contemporary Asian Studies, No. 5, 2000 (160).

²⁸ [<http://www.aseansec.org> as], Accessed 10 October 2003.

- To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;...²⁹

The ASEAN declaration made clear that the association is open for participation to all states in the Southeast Asian Region subscribing to the aforementioned aims, principles and purposes. It further stated the Association represents the collective will of the nations of Southeast Asia to bind themselves together in friendship and cooperation. In order to achieve these aims, ASEAN adopted the principle of non-interference in the internal affairs of its members. ASEAN meetings are conducted in a consultative mode. Decisions are made only through consensus. ASEAN also did not seek to resolve problems between its members by acting as an official arbitrator but rather by creating conditions for the members that are in dispute to compromise³⁰. A dispute-settlement mechanism, the High Council was established by the founding members of ASEAN in February 1976 through the Treaty of Amity and Cooperation, but this mechanism has never been used³¹. ASEAN is indigenous and unique, for its creation and evolution are truly Southeast Asian and no models exist elsewhere in the world for emulation³².

C. THE EVOLUTION OF ASEAN

During the late 1960s and early 1970s, Cambodia, Laos and South Vietnam attended some of the ASEAN Ministerial Meetings as Observers. Burma (Myanmar), on the other hand, showed no interest in ASEAN membership due to its official stance as a neutral country. North Vietnam, meanwhile, was at war with South Vietnam and the United States³³.

Unfortunately, the end of the wars in Indochina in 1975 did not remove the distrust and ideological animosity, let alone improve regional stability. Worse still, in late 1978, the Kampuchean conflict raised regional tensions to a dangerous level and

²⁹ Ibid.

³⁰ An example of such a situation is the “Sabah claim” between Malaysia and the Philippines. Even though the problems have not been solved, Malaysia and the Philippines normalized their relations in May 1969. See also Amitav Acharya, 2000, “*The Quest For Identity: International Relation of Southeast Asia*”, Singapore: Oxford University Press, p. 93.

³¹ Koro Bessho, 1999, *Identities and Security in East Asia*, IISS, New York: Oxford University Press, p. 41.

³² Russell H. Fifield, “*ASEAN: Image and Reality*”, *Asian Survey*, Vol. 19, No. 12, Recent International Developments in Asia (December 1979), pp. 1199-1208.

³³ Amitav Acharya, 2000, “*The Quest for Identity: International Relation of Southeast Asia*”, Singapore: Oxford University Press, p. 83.

consequently, robbed the Southeast Asia states of time as well as enormous human and economic resources that could otherwise have been used in national reconstruction and regional cooperation in Southeast Asia³⁴.

On 7 January 1984, for the first time since its inception, ASEAN's membership was expanded with the admission of Brunei Darussalam. With a population of less than 300,000 and sandwiched between Indonesia and Malaysia, ASEAN membership brought to Brunei Darussalam instant recognition and acceptance from ASEAN members³⁵.

Laos and Vietnam became official observers in ASEAN after their accession in 1992 to ASEAN's Treaty of Amity and Cooperation in Southeast Asia. ASEAN took another step towards realizing the vision of ASEAN-10 (having all 10 countries in Southeast Asia in ASEAN) with the admission of Vietnam, in July 1995, as its seventh member³⁶. The admission of Vietnam was also a paradigm shift in Southeast Asia³⁷, as ASEAN was originally formed to bring together the non-communist Southeast Asia states to counter the threat of communist expansion into the region.

Laos was motivated by the admission of Vietnam to join ASEAN. Until 1995, Laos took the position that it would join ASEAN together with Cambodia and Myanmar. At the 28th AMM in 1995, Cambodia was accorded Observer status after Cambodia acceded to the Treaty of Amity and Cooperation. Myanmar acceded to the Treaty in July 1995 and was accorded Observer status at the 29th AMM in July 1996 in Jakarta³⁸. At the Fifth ASEAN Summit in Bangkok in mid-December 1995, Cambodia, Laos and Myanmar submitted their respective applications for ASEAN membership in 1996. Like Laos, Cambodia and Myanmar also wished to join ASEAN in 1997.

³⁴ Ibid., p. 89.

³⁵ Donald E. Weatherbee, "Brunei: The ASEAN Connection", *Asian Survey*, Vol. 23, No. 6 (June 1983), pp. 723-735.

³⁶ Leszek Buszynski, "ASEAN's New Challenges", *Pacific Affairs*, Vol. 70, No. 4 (Winter, 1997-1998), pp. 555-577.

³⁷ Carolyn L. Gates and Mya Than, in "ASEAN Enlargement: An Introductory Overview", *ISEAS, Singapore*, 2001, p. 1.

³⁸ Ibid., pp. 557-560.

Laos and Myanmar were admitted as the eight and ninth members of ASEAN on 23 July 1997³⁹. Cambodia's admission was delayed because of internal political developments in Cambodia. Co-Prime Minister Hun Sen ousted Prime Minister Prince Norodom Ranariddh in a violent coup⁴⁰. The Sixth ASEAN Summit held in Hanoi on 16 December 1998 decided to admit the Kingdom of Cambodia as the tenth member of ASEAN. On 30 April 1999, The Association of Southeast Asian Nations (ASEAN), admitted Cambodia as its tenth member, fulfilling its vision to establish an organization for all Southeast Asian countries.

ASEAN is now comprised of the following countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Myanmar, Malaysia, the Philippines, Singapore, Thailand and Vietnam⁴¹.

1. The “ASEAN Way”

ASEAN is a unique organization as it is founded upon the principles of consensus and non-interference. This distinctive nature of the “ASEAN Way” is stipulated in Chapter IV, Articles 13 to 17 of the Treaty of Amity and Cooperation. The accession of this treaty is a precondition for admission to ASEAN.

The Treaty outlines the following principles. The first is mutual respect for independence, sovereignty, territorial integrity of all nations. The second is the right of every state to lead its national existence free from external experience, subversion and coercion. The third is non-interference in the internal affairs of one another. The fourth is the settlement of differences and disputes by peaceful means. Finally, the fifth is the renunciation of the threat of the use of force⁴². The treaty also provides a mechanism for a formal dispute settlement known as the High Council. The role of this council is to find ways and means to resolve disputes reported by members. The council is encouraged to conduct direct negotiation between the disputed parties. It is also required to take

³⁹ Ibid.

⁴⁰ Amitav Acharya, 2000, *“The Quest for Identity: International Relation of Southeast Asia”*, Singapore: Oxford University Press, p. 135.

⁴¹ Carolyn L. Gates and Mya Than, in *“ASEAN Enlargement: An Introductory Overview”*, ISEAS, Singapore, 2001, pp. 1-26.

⁴² Amitav Acharya, 2001, *“Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order”*, London and New York: Routledge, p. 47.

appropriate action such as good offices, mediation, inquiry or conciliation to resolve disputes. However, to this date, this mechanism has never been activated or utilized by any member of ASEAN, despite many disputes that have arisen between its members since 1967. Most of the disputes between ASEAN's members were resolved between the parties in an informal way without interference from third parties⁴³.

In order to clearly explain the distinctiveness of the ASEAN Way as compared to the doctrine of non-interference, non-intervention and pacific settlement of disputes that are cardinal principles of the Westphalia international system, Noordin Sopiee lists thirteen principles which he claims to be the core principles of the ASEAN Way. These principles are:⁴⁴ (1) Rejection of internal and external collective military pacts; (2) rejection of emphasis on peace through military deterrence; (3) the advocacy and practice of the 'true peace' measure: the building of confidence, trust, predictability, goodwill and friendship, national resilience, a rich web of productive and warm bilateral relations; (4) the principle of actively seeking and maximizing solidarity, common ground, agreement and harmony; (5) the principle of sensitivity; politeness, non-confrontation and agreeability, emphasizing 'the ability to agree to disagree without being disagreeable'; (6) the principle of decision making by consensus; (7) the principle of mutual caring; (8) the principle of integrity; (9) the principle of non-intervention in domestic affairs; (10) the preference for quiet diplomacy and aversion to excessive public washing of dirty linen and diplomacy through the media and mass mobilization; (11) the principle of pragmatism; (12) the preference for content rather than form, substance rather than process, non-addiction Cartesian and to legalism; and (13) the principle of egalitarianism.

Amitav Acharya, a scholar in Southeast Asia studies, commented that while the list is repetitive and debatable, it is a useful list of the most salient aspects of the ASEAN Way⁴⁵. Critics have argued that the ASEAN Way is not an effective conflict resolution method but a method of conflict avoidance and has led to conflicts being "swept under

⁴³ Amitav Acharya, 2000, *The Quest for Identity: International Relation of Southeast Asia*, Singapore: Oxford University Press, pp. 127-128.

⁴⁴ Noordin Sopiee, "ASEAN Towards 2020: Strategic Goals and Critical Pathway", Paper Presented to the 2nd ASEAN Congress, Kuala Lumpur, 20-23 July 1997, p. 9.

⁴⁵ Amitav Acharya, 2001, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*, London and New York: Routledge, p. 75.

the carpet”. The ASEAN Way is also seen as a mechanism to “buy time”. The expansion of ASEAN to incorporate the Indochina states has posed a test to the durability and effectiveness of the ASEAN way. The larger membership in ASEAN makes its decision-making process more cumbersome and possibly less effective. Whether this occurs remains to be seen.

2. ASEAN Security

With regards to the security role of ASEAN, ASEAN initially did not assume a specific security-related role and rejected becoming a military alliance⁴⁶. ASEAN has taken a neutral stance; a stance which can be seen in ASEAN security-related initiatives⁴⁷. During the Cold War era, in order to maintain its neutrality and its principle of non-interference, ASEAN opted to be a member of the Non-Aligned Movement. Therefore, the security of ASEAN members, to an extent, relied on outside assistance through bilateral arrangements⁴⁸. The United States and ASEAN member’s former colonial powers were the primary guarantors of ASEAN members’ security. Besides external help, ASEAN members also relied on bilateral ties among its members. Early forms of bilateral ties were geared towards border region insurgencies. However, with the collapse of communist insurgencies in the region, military cooperation has taken shape in the form of intelligence sharing and joint exercises and training.⁴⁹

In July 1993, the security outlook of the Southeast Asia region changed when ASEAN formally proposed the establishment the ASEAN Regional Forum (ARF), the region’s only multilateral security framework⁵⁰. The ARF was established in 1994. It draws together 23 countries, which have a bearing on the security of the Asia-Pacific region. It comprises the 10 ASEAN member states, the 10 ASEAN dialogue partners⁵¹, one ASEAN observer (PNG); as well as South Korea and Mongolia.

⁴⁶ Koro Bessho, 1999. *Identities and Security in East Asia*, IISS, New York: Oxford University Press, pp. 41-42.

⁴⁷ Such as the establishment of the Zone of Peace, Freedom and Neutrality (ZOPFAN) in 1971 and the Declaration of ASEAN Concord in 1976.

⁴⁸ Ibid.

⁴⁹ Amitav Acharya, 2002, “*Regionalism and Multilateralism: The Association of Southeast Asia Nations: ‘Security Community’ and ‘Defence Community’?*”, Singapore: Times Academic Press, p. 74.

⁵⁰ Koro Bessho, 1999. *Identities and Security in East Asia*, IISS, New York: Oxford University Press, p. 70.

⁵¹ ASEAN dialogue partners are, Australia, Canada, China, the EU, India, Japan, New Zealand, ROK, Russia and the United States.

The ASEAN Regional Forum is the principal forum for security dialogue in Asia. The ARF complements the various bilateral alliances and dialogues, which underpin the region's security architecture. The ARF is premised on the idea drawn from the ASEAN experience, or that a process of dialogue can produce qualitative improvements in political relationships. It provides a setting in which members can discuss current regional security issues and develop cooperative measures to enhance peace and security in the region.

The ARF is characterized by consensus decision-making and minimal institutionalization. The 1995 ARF Concept Paper set out a three-stage, evolutionary approach to the ARF's development, moving from confidence-building to preventive diplomacy and, in the long term, towards a conflict resolution capability⁵². In its first ten years, the ARF has made modest gains in building a sense of strategic community and, more recently, it has contributed to the region's counter-terrorism efforts. However, efforts to develop tools of preventive diplomacy and conflict management are still at an early stage. While the ARF continues to focus on confidence building measures, ARF members have also agreed that preventive diplomacy should proceed in tandem with these efforts, particularly in areas of overlap between confidence building and preventive diplomacy.

Preventive diplomacy tools accepted by ARF members to date include an enhanced role for the ARF Chair in coordinating ARF positions so as to strengthen the ARF's ability to respond to situations affecting the security of ARF members during the period between Ministerial meetings. Another mechanism is an ARF Register of Experts and Eminent Persons which, when operational, will provide a pool of expertise on regional security issues that may be drawn upon by the ARF Chair or individual ARF members⁵³.

⁵¹ Koro Bessho, 1999. *Identities and Security in East Asia*, IISS, New York: Oxford University Press, p. 70.

⁵² Ibid., pp. 70-74.

⁵³ Shaun Narine, *ASEAN and the ARF: The Limits of the "ASEAN Way"*, *Asian Survey*, Vol. 37, No. 10 (October 1997), pp. 961-978.

3. ASEAN Economic Cooperation

When ASEAN was established, trade among the member countries was small relative to trade outside the region. Estimates between 1967 and the early 1970s showed that the share of intra-ASEAN trade from the total trade of the member countries was between 17.2 and 20.9 percent⁵⁴. Thus, some of the earliest economic cooperation schemes of ASEAN were aimed at addressing this situation. One of these was the Preferential Trading Arrangement of 1977 (PTA), which accorded tariff preferences for trade among ASEAN economies. Ten years later, an Enhanced PTA Programme was adopted at the Third ASEAN Summit in Manila to increase intra-ASEAN trade. However, no progress was evident by the end of the decade. In spite of the poor economic cooperation record, ASEAN leaders in 1991 reached an agreement on the idea of the establishment of a free trade area.

During the fourth ASEAN summit held in Singapore in January 1992, the ASEAN Heads of Government signed the Singapore Declaration of 1992 and the Framework Agreement on Enhancing ASEAN Economic Cooperation. One of the major outcomes of this Summit was the decision to set up the ASEAN Free Trade Area (AFTA) within 15 years. The strategic objective of AFTA is to increase the ASEAN region's competitive advantage. Member countries also signed the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme, which is the main instrument to establish the AFTA⁵⁵. The Fourth Summit also enhanced the role of the Secretary-General of ASEAN and enlarged the functions of the ASEAN Secretariat to carry out its new mandate⁵⁶.

Initially, the AFTA proposal envisaged tariffs among ASEAN countries falling to between zero to five per cent within 15 years from January 1993. However, this deadline was brought forward by five years to 2003⁵⁷. This was in response to the establishment

⁵⁴ John Ravenhill, "Economic Cooperation in Southeast Asia: Changing incentive", *Asian Survey*, Vol. 35, No. 9 (September 1995), pp. 850-866.

⁵⁵ Ibid., pp. 857-861.

⁵⁶ Ibid.

⁵⁷ Ibid.

of Asia Pacific Economic Cooperation (APEC)⁵⁸ in 1989 to further enhance economic growth and prosperity for the region and to strengthen the Asia-Pacific community. Since its inception, APEC has worked to reduce tariffs and other trade barriers across the Asia-Pacific region, creating efficient domestic economies and dramatically increasing exports⁵⁹. Given the smaller size of AFTA, if it wants to succeed, it must be a step ahead of APEC in the area of tariff reduction. However, some flexibility was granted to the new members of ASEAN and the deadline was extended to 2008⁶⁰. AFTA is expected to be an important tool in maintaining ASEAN's cohesion and preserving ASEAN identity.

In 1997, the ASEAN leaders adopted ASEAN Vision 2020, which called for ASEAN partnership in dynamic development aimed at forging closer economic integration within the region. The vision statement also resolved to create a stable, prosperous and highly competitive ASEAN Economic Region, in which there is a free flow of goods, services, investments, capital, and equitable economic development and reduced poverty and socio-economic disparities. The Hanoi Plan of Action, adopted in 1998, serves as the first in a series of plans of action leading up to the realization of the ASEAN vision⁶¹.

In addition to trade and investment liberalization, regional economic integration is being pursued through the development of Trans-ASEAN transportation networks consisting of major inter-state highway and railway networks, principal ports and sea lanes for maritime traffic, inland waterway transport, and major civil aviation links. ASEAN is promoting the interoperability and interconnectivity of the national telecommunications equipment and services. The building of Trans-ASEAN energy networks, which consist of the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline Projects, are also ongoing.

⁵⁸ APEC's 21 Member Economies are Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, China, Indonesia, Japan, The Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Republic of the Philippines, The Russian Federation, Singapore, Chinese Taipei, Thailand, The United States of America, Vietnam.

⁵⁹ [http://www.apecsec.org.sg/apec/about_apec.html], Accessed 6 October 2003.

⁶⁰ Koro Bessho, 1999. *Identities and Security in East Asia*, IISS, New York: Oxford University Press, pp. 46-47.

⁶¹ [http://www.9aseansummit.com/bkg_page.php?id=666&pid=46], Accessed 13 October 2003.

The ASEAN Vision 2020 affirmed an outward-looking ASEAN playing a pivotal role in the international community and advancing ASEAN's common interests. It has made major strides in building cooperative ties with states in the Asia-Pacific region and shall continue to accord them a high priority. Cooperation with other East Asian countries has accelerated with the holding of an annual dialogue among the leaders of ASEAN, China, Japan, and the Republic of Korea. In 1997, a joint statement between ASEAN and each of them was signed providing for framework for cooperation towards the 21st century⁶². This marked the establishment of the ASEAN+3 Summit. In November 1999, to further strengthen their cooperation, the leaders of ASEAN, China, Japan and the Republic of Korea issued a Joint Statement on East Asia Cooperation outlining the areas of cooperation among them⁶³. The most recent development on ASEAN+3 cooperation during the writing of this paper is the 7th ASEAN+3 summit held in Bali, Indonesia on 7 October 2003.

D. THE ESTABLISHMENT OF ASEAN +3 COOPERATION

1. Introduction

The idea of establishing a regional cooperation between Southeast Asia states and the Northeast Asia states was initially mooted by Malaysian Prime Minister Mahathir Mohamed in his proposal for an East Asia Economic Grouping (EAEG) in 1990. The United States and non-East Asia countries opposed this idea⁶⁴ because it was perceived that it would undermine APEC. Japan, as the key actor in the proposed grouping, was reluctant to affirm its support due to concerns that it would antagonize the United States. In order to save the idea, ASEAN proposed then that an East Asia Economic Caucus (EAEC) would function within the APEC framework. However, APEC, gaining its reputation as an important regional institution, overshadowed the development of EAEC.

The revival of Asian regionalism came during the preparation for the ASEM that was to be held in Bangkok, Thailand in 1995. ASEAN leaders decided to invite the leaders of Japan, China and South Korea to join them at the meeting. During this

⁶² [http://www.9aseansummit.com/bkg_page.php?id=202], Accessed 13 October 2003.

⁶³ [http://www.9aseansummit.com/bkg_page.php?id=2021], Accessed 13 October 2003.

⁶⁴ Low Linda, 1991, "*The East Asia Economic Grouping*", *The Pacific Review*, Vol. 4, No. 4, pp. 375-382.

meeting, these leaders agreed to continue to meet as a group in the future. The meeting of ASEAN senior officials and the three Northeast Asia states was held in 1996 and plans were made for a meeting of economic ministers and foreign ministers in 1997.

Subsequently, the heads of state and the governments of China, Japan and Korea were invited to the second ASEAN Informal Summit in Kuala Lumpur in 1997. This was later known as the ASEAN+3 summit. This meeting was followed by separate “ASEAN+1” meetings between ASEAN leaders with each of the leaders of China, Japan and South Korea.

The ASEAN+3 summit was aimed at enhancing regional cooperation to cope with the monetary and economic crisis that erupted the East Asia Region in 1997. The ASEAN+3 leaders further strengthened the ASEAN+3 process with the issuance of a Joint Statement on East Asia cooperation in 1999⁶⁵.

2. Joint Statement on East Asia Cooperation

At the third ASEAN Informal Summit in Manila in 1999, the ASEAN+3 leaders issued a Joint Statement on East Asia Cooperation. The statement reflected a commitment to strengthen cooperation and collaboration in East Asia in priority areas of shared interest and concern especially in economic, monetary and financial cooperation, social and human resources development, science and technology, culture and information and development cooperation⁶⁶.

At their first meeting in Bangkok in July 2000, the ASEAN+3’s foreign ministers adopted a Modality for the Implementation of the Joint Statement with a view to ensure coordination and coherence while allowing for flexibility in moving the process forward. In terms of coordination, it was agreed that countries chairing summits would compile and consolidate reports on progress made in various areas of cooperation, which would be submitted for the consideration of the ASEAN+3 summits. The foreign ministers also agreed to meet annually with a view to strengthening cooperation within the ASEAN+3 framework.

⁶⁵ [http://www.aseansummit.com/bkg_page.php?id=202], Accessed 13 October 2003. See also Eric Teo Chu Cheow, “Towards an East Asian Model of Regional Cooperation”, *Internationale Politik und Gesellschaft*, Vol. 4/2002, pp. 143-158.

⁶⁶ [<http://www.aseansec.org/5469.htm>], Accessed 28 April 2003 for the detail Joint Statement on East Asia Cooperation.

3. ASEAN+3 Cooperation

To date there have been seven ASEAN+3 summit meetings (including the ASEAN+3 Study Group on the Facilitation and Promotion of the Exchange of People and Human Resource Development meeting) and five ASEAN+3 Foreign Ministers meetings with the latest being the ASEAN+3 summit meeting 2003 held on the 7 and 8 October 2003 in Bali, Indonesia⁶⁷.

ASEAN+3 cooperation has been most prominent in the areas of economics and finance. ASEAN officials in areas such as science and technology, agriculture and forestry, labor and tourism have expressed interest in having their own ASEAN+3 processes. Priorities for regional cooperation activities among the ASEAN+3 countries include enhancing self-help and support mechanisms, monitoring capital flows, and establishing mechanisms for closer and more effective economic review and policy dialogue⁶⁸.

The most successful ASEAN+3 cooperation is the Chiang Mai Initiative, which was announced by the ASEAN+3 finance ministers, convening in May 2000. They intended to cooperate in four principal areas: monitoring capital flows, regional surveillance, swap networks, and training personnel⁶⁹. The initiative involves an expanded ASEAN Swap Arrangement that would include ASEAN countries, China, Japan and the Republic of Korea⁷⁰.

4. East Asia Vision Group (EAVG) and East Asia Study Group

As proposed by Korea's President Kim Dae-jung at the ASEAN+3 Summit in Hanoi in 1998, the ASEAN+3 leaders agreed to establish the East Asia Vision Group (EAVG) and East Asia Study Group (EASG). EAVG consists of eminent intellectuals from ASEAN countries, Japan, China and South Korea, while the EASG consists of government officials. These groups were established in December 1998 and November 2000 respectively to discuss long-term cooperation.

⁶⁷ [<http://www.mofa.go.jp/region/asia-paci/asean/conference/asean3/>], Accessed 13 October 2003.

⁶⁸ Worapot Manupipatpong, *The ASEAN Surveillance Process and the East Asian Monetary Fund*, *ASEAN Economic Bulletin*, Vol. 19, No. 1 (2002), pp. 111-122.

⁶⁹ C. Randall Henning, 2002, *“East Asian Financial Cooperation”*, Institute For International Economics, Washington DC: Kirby Lithographic Company, Inc.

⁷⁰ The Joint Ministerial Statement of the ASEAN+3 Finance Ministers Meeting on 6 May 2000, Chiang Mai, Thailand.

Prior to the submission of their final report to the ASEAN+3 summit, the EASG conducted six meetings. The final report of the EASG provides an assessment of two broad categories⁷¹: first, to assess the 57 concrete measures recommended by the EAVG in its report and second, to explore the idea and implications of an East Asia summit⁷². The EASG was officially launched on 17 March 2001 and consists of fourteen members: 13 senior officials from the ten ASEAN members plus China, Japan and Korea along with the secretary-general of ASEAN.

Regarding their assessment of the recommendations made by the EAVG, the EASG finds that the recommendations will be useful in realizing the East Asian vision of peace, prosperity and progress. Out of the 57 concrete measures recommended by the EAVG, the EASG has selected 26 implementable concrete measures with high priority.

The final report also makes its assessment of the implications of an East Asian summit. Their findings are as follows. First, the ASEAN+3 evolved into the East Asian summit, therefore, it is important for East Asia to continue working towards a durable institutional framework for region-wide dialogue and cooperation. Second, the East Asia cooperation is both inevitable and necessary and an East Asian community will evolve over time. However, there are concerns that ASEAN will be marginalized if the transition towards an East Asia Summit moves too fast; and that the ASEAN+3 framework remains the only credible and realistic vehicle to advance the form and substance of regional cooperation in East Asia. The East Asia Summit should be part of an evolutionary and systematic process.

The EASG makes the following recommendations. First, in order to implement the 26 implementable concrete measures with high priority successfully, there must be a strong political commitment by all parties. The EASG also recommended that East Asia countries prepare action plans on each concrete measure and have productive discussions on those plans within the ASEAN+3 process.

⁷¹ Ibid.

⁷¹ For detail information, see the Final Report of the East Asia Study Group, 4 November 2002, Phnom Penh, Cambodia.

⁷² Ibid.

E. CONCLUSION

This chapter has discussed the formation and evolution of ASEAN. It also examines ASEAN's security and economic cooperation. It explains the ASEAN Way and the principle of non-interference adopted by ASEAN in its intra and inter-regional relationship.

Finally, this chapter discusses the establishment of the ASEAN+3. It explains the development of the ASEAN+3 from an idea into reality. From the first discussion of creating an institutionalize cooperation until the establishment of the working group, positive responses to the materialization of the joint statement of East Asia cooperation has been progressing well especially in the areas of economics and finance.

Examining ASEAN and the ASEAN+3 together, it can be argued that ASEAN norms and practices would influence the future undertakings of the ASEAN+3. On the other hand, ASEAN norms and practices would also be influenced by the norms and practices of the Northeast Asia countries. As stressed by the EASG that East Asia cooperation is inevitable and necessary, and it is only a matter of time before an East Asia Community developing common goals and norms will become a reality.

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III. A REVIEW OF THE LITERATURE OF THE ASIAN ECONOMIC CRISIS

A. INTRODUCTION

In the last three decades, the world has witnessed two major distinct economic events that made the East Asia Region the focal point of the world agenda: the Asian economic miracle and the Asian economic crisis. During the period when the growth rates of many East Asian states averaged six to ten percent per annum, many observers were amazed by this event to the extent they labeled it an “economic miracle”. The performance of the East Asian economies stood in stark contrast to the long-held assumption that Asian cultures lacked the capacity to generate sufficient economic growth⁷³. As the economic success of East Asian states became the envy of other developing states, the idea of an Asian economic development model different from traditional Western development models grew. To some extent, the idea of an Asian economic development model challenged the long-standing free market economic model championed by the West. Underlying the rise of the Asian model was the philosophy of Asian values with its emphasis on strong government and restricted civil liberties, and state-determined economic development.

However, in 1997, the East Asia economy was severely affected by the Asian financial crisis, which started with the collapse of Thai’s baht. This financial crisis quickly spread to Malaysia, Indonesia, the Philippines, and South Korea. Singapore and Taiwan were also affected, but their currencies suffered minor devaluations⁷⁴. The Asian financial crisis later led to an economic crisis. Some observers argued that the Asian financial crisis finally put to rest the myth that the region’s success was the result of a unique system of capitalism rooted in Asian values. These observers argued that the unique system of Asian capitalism bred cronyism and corruption, and that the economic miracle merely hid the corrupt nature of the Asian development model⁷⁵.

⁷³ Lucian W. Pye, 2000, “*Asian Values*”: *From Dynamos to Dominos?* In *Cultures Matters: How Values Shape Human Progress*, eds. Lawrence E. Harrison and Samuel P. Huntington, New York: Basic Books, p. 244.

⁷⁴ Y. C. Richard Wong, “*Lessons from the Asian Financial Crisis*”, *Cato Journal*, Vol. 18, No. 3 (Winter 1999), Hong Kong: Cato Institute, p. 391.

⁷⁵ *Ibid.*

The Asian economic development model must not be dismissed outright on the basis of a short period of poor economic performance. The fact remains that this model, in general, appears to have improved the economic status of its East Asian adherents. Economic growth in most East Asia states lasted for more than a decade before it was severely affected by the economic crisis. The development record of the “Four Tigers” (Singapore, Hong Kong, Taiwan and South Korea) stands out relative to the performance of other developing countries.

A review of the Asian economic crisis literature will provide readers with arguments pertaining to the causes of the crisis and the debate for and against the Asian economic development model. The focus of this chapter is to examine the relationship between the Asian economic crisis and the establishment of the ASEAN+3. In doing so, an overview of the Asian economic crisis in the second section of this chapter is briefly provided. The third section discusses some of the perceived factors that caused the Asian economic crisis, and finally, the relationship between the Asian economic crisis and the ASEAN+3 is examined.

There is a vast amount of literature on this subject of the Asian economic crisis. The focus of this thesis, however, is on those aspects of the crisis that influenced the establishment of the ASEAN+3.

B. OVERVIEW OF THE ASIAN ECONOMIC CRISIS

Prior to the 1997-1998 Asian economic crisis, the East Asian region had experienced a decade of, to put it mildly, outstanding economic growth. Some observers believed that the Asian economic growth would continue in the future, as the economic fundamentals were strong, even though there were some warning signs of problems but nothing to indicate impending disaster⁷⁶. This view was proven wrong when the Asian financial crisis hit the region unexpectedly.

⁷⁶ Hali J. Edison, Pongsak Luangaram and Marcus Miller, “Asset Bubbles, Leverage and ‘Lifeboats’: Elements of the East Asian Crisis”, *The Economic Journal*, 110, (January 2000), pp. 309-334.

1. The Asian Economic Model

In order to understand the reasons behind the Asian economic crisis, one must first understand the fundamental principles of the Asian economic development model. The fundamental principles of the Asian economic development model can be summarized as follows.⁷⁷

First, the Asian economic model stresses the need for sound macroeconomic management. A stable business environment with relatively low inflation encourages investment in long-gestation fixed assets projects. Prudent and sustainable fiscal policies actively complement other measures aimed at equitably sharing the rewards from higher growth. Exchange rate policies underpin export competitiveness and financial development and liberalization maximize domestic savings and promotes efficient allocation of resources and integration with the global financial system. Government should also attempt to minimize price distortions, and undertake actions to support the spread of primary and secondary schooling as well as the creation of skills to buttress an outward looking development push.

Second, the Asian development model emphasizes the need for a bureaucracy able to conceive and implement the designs of a strong state. Control is centralized; minimizing the need for coordination across multiple layers of government. This principle was adopted especially in Singapore, South Korea, Japan and Taiwan. Close cooperation is also needed between the government and business sectors in the economic development of the country⁷⁸. Third, government intervention is used to quicken the pace of industrialization, and promote industrial exports. East Asian governments also made selective use of tariffs, export incentives in the form ranging from moral suasion to subsidies and mild financial repression in order to provide lower cost financing to industry. Finally, the fourth principle is a pragmatic approach in the economic development strategy. The measures taken by the government are flexible and will be

⁷⁷ Shahid Yusuf, 2001, “*The East Asian Miracle at the Millennium*” in Rethinking the East Asia Miracle, eds., Joseph E. Stiglitz and Shahid Yusuf, New York: Oxford University Press, pp. 5-7. See also Kenichi Ohno, 1998, “*Japanese Views on Economic Development*” in Overview: Creating the Market Economy, eds., Kenichi Ohno and Izumi Ohno, London: Routledge and World Bank, 1993, *The East Asian Miracle: Economic Growth and Public Policy*, New York: Oxford University Press.

⁷⁸ Ibid.

abandoned if the purpose is not being fulfilled. In other words, the Asian development model was based upon the assumption that market outcomes could be improved through the manipulation of incentives by the government.

Other observers believed that the high economic growth achieved by East Asia states during the miracle years were the result of a blend of high savings and investment rates, autocratic political systems, export-oriented businesses, restricted domestic markets, government capital allocation, and controlled financial systems⁷⁹. Harvie and Lee suggested that the East Asia economies achievement bears strong resemblance to Gerschenkron's theory of "economic backwardness". East Asian governments successfully undertook the radical measures to promote development through institutional innovations and controlled capital markets. Beside these factors, economic growth has resulted from demographic changes in these countries. There has been a significant increase in the working age group in these countries as the result of the fall in birth and death rates in the early 1970s and early 1990s. The sound work ethic of the Asian people also contributed to the economic development of their countries. Asian people are diligent as proven by their long working hours and high saving rates. Such diligence in combination with the low costs of labor employment made East Asia economies attractive to foreign investors. Coupled with high rates of savings, these demographic changes spurred economic growth.⁸⁰.

Whether the Asian economic model is actually unique is still a matter of debate. Some view the swift recovery of the Asian economies from the crisis as evidence of the long-standing strength of the model, while others view it as an outcome of the reforms urged by international financial institutions. To understand this debate, we must first discuss the crisis event itself and its impact on the East Asian region.

2. The Asian Crisis

Many observers argue that the Asian Financial Crisis (AFC) began in May 1997 with the speculative attack on the Thai Baht. As the Baht depreciated, foreign investors pulled capital from Thailand, further depressing the Baht's value. The devaluation of the

⁷⁹ Alan C. Shapiro, *Multinational Financial Management*, Upper Saddle River, NJ: Prentice Hall, 1999, Chapter 1.

⁸⁰ Charles Harvie and Hyun-Hoon Lee, "New Regionalism in East Asia: How Does it Relate to the East Asian Economic Development Model?", *ASEAN Economic Bulletin*, Vol. 19, No. 2 (2002), pp. 123-140.

Baht exposed the underlying weaknesses of the Thai economy, to include over investment, corruption, and cronyism. The Thai government assisted in the devaluation of the Baht by claiming it was the action of foreign speculators, statements which only exacerbated the outflow of capital. As Thailand's currency rapidly depreciated, it placed pressure on other regional currencies; pressure that soon led to the selling of the currencies and a flight to quality; namely the U.S. Dollar, English Pound, and German Deutschmark. The AFC reached its peak where local banks, unable to collect on risky loans, collapsed. The collapse of the banking systems led to a regional recession called the Asian economic crisis.

By the end of 1997, the region was in the grip of a full-blown economic crisis.⁸¹ Exports and imports dramatically declined, investment fell significantly; excess capacity increased, and profits declined and unemployment grew. For many of the countries in the region, economic activity, as measured by Gross Domestic Product, fell (Table 1).

Despite the severity of the crisis, by early 1999, the Asian economies began to recover and towards the end of 1999 managed to attain a growth rate of 4.1 percent. In 2000, East Asian economic growth averaged 6 percent⁸², which is nearly the same average growth rate during the economic miracle period. The Asian economic crisis is believed to have ended in 1998, having caused a tremendous destruction of wealth, significant unemployment, and increase in poverty. Decades of social progress were reversed. It also caused political instability to erupt in several of the countries. New governments emerged in Indonesia, South Korea, and Thailand. The social after-shock of the economic crisis is still being felt in 2003. It is unfortunate that the crisis also caused increased distrust among Asian societies toward western societies and globalization, which they champion⁸³.

⁸¹ Shahid Yusuf, "The East Asian Miracle at the Millennium", in Joseph E. Stiglitz and Shahid Yusuf, eds., "Rethinking the East Asia Miracle", Oxford: Oxford University Press, (2001), pp. 1-53.

⁸² Ibid., pp. 3-4.

⁸³ Anthony Milner, "Asia-Pacific Perception of the Financial Crisis: Lessons and Affirmations", Contemporary Southeast Asia, Vol. 25, No. 2 (August 2003).

Table 1. Macroeconomic Adjustment of Indonesia, Korea, Malaysia, the Philippines and Thailand – 1993-2000⁸⁴ (After: Source: Asian Development Bank).

Growth Rate	1993	1994	1995	1996	1997	1998	1999	2000
Indonesia								
GDP (%)	7.25	7.54	8.22	7.82	4.70	-13.20	0.23	4.8
GD Investment (%)	4.88	10.83	11.01	11.97	6.89	-31.81	-15.85	8.9
Exports (%)	6.81	9.94	7.72	7.56	7.80	11.18	-32.06	27.1
Import (%)	4.65	20.30	20.94	6.86	14.72	-5.29	-40.90	4.1
Korea								
GDP (%)	5.49	8.25	8.92	6.75	5.01	-6.69	10.66	8.8
GD Investment (%)	5.87	8.55	9.37	7.50	-1.44	-16.68	2.90	8.0
Exports (%)	11.30	16.08	24.59	11.21	21.44	13.25	16.35	19.9
Import (%)	6.21	21.58	22.36	14.25	3.18	-22.40	28.94	34.0
Malaysia								
GDP (%)	9.89	9.21	9.83	10.00	7.54	-7.50	5.42	8.3
GD Investment (%)	15.41	14.14	19.04	6.71	8.87	-36.29	0.54	27.9
Exports (%)	11.54	21.91	18.96	9.23	5.42	-0.21	13.76	16.1
Import (%)	15.04	25.64	23.7	4.89	5.74	-19.37	11.58	25.7
Philippines								
GDP (%)	2.13	4.39	4.67	5.85	5.19	-0.59	3.32	4.0
GD Investment (%)	8.00	7.14	4.94	9.94	9.77	-9.00	-0.11	2.3
Exports (%)	6.26	19.77	12.04	15.40	17.15	-21.04	3.65	8.7
Import (%)	11.48	14.51	16.03	16.73	13.49	-14.71	-2.79	2.1
Thailand								
GDP (%)	8.38	8.95	8.90	5.93	-1.68	-10.17	4.16	4.4
GD Investment (%)	8.55	10.83	10.04	8.08	-18.59	-35.17	-1.72	11.8
Exports (%)	12.74	14.25	15.50	-5.53	8.41	6.72	8.86	19.5
Import (%)	11.78	15.75	19.87	-0.52	-11.38	-22.28	20.24	24.6

C. CAUSES OF ASIAN ECONOMIC CRISIS

There have been many studies attempting to determine the causes of the Asian economic crisis. The findings have been divisive among economists. Even the International Monetary Fund (IMF) has been alleged for wrongly interpreting the causes

⁸⁴ Adopted from Yung Chul Park and Jong Wha Lee, "Financial Crisis and Recovery: Pattern of Adjustment in East Asia, 1996-99", ADB Institute Research Paper Series No. 45, October 2002.

of the crisis, which led to flawed policy advice that exacerbate the crisis⁸⁵. This section highlights the different views of scholars and economists about the cause of the Asia economic crisis.

According to the IMF's first deputy managing director, Stanley Fischer, most of the problems originated locally. However, he also pointed out that advanced economies and global financial markets contributed significantly to the build-up of the imbalances that eventually led to the economic crisis. He identified the following key domestic factors that led to the economic crisis:⁸⁶

[F]irst, the failure to dampen overheating pressures that had become increasingly evident in Thailand and many other countries in the region and were manifested in large external deficits and property and stock markets bubbles; second, the maintenance of pegged exchange rate regime for too long, which encouraged external borrowing and led to excessive exposure to foreign exchange risk in both the financial and corporate sectors; third, lax prudential rules and financial oversight, which led to a sharp deterioration in the quality of banks' loan portfolios...

Other observers have different views regarding the causes of the Asian economic crisis. Some believe that the economic upheaval in Asia was due to the corruption and incompetence of Asian governments and certainly not due to the weaknesses in the architecture of global finance⁸⁷. Krugman, a well-known economist, initially in his crony capitalism analysis, supported this view and believed that the Asian economic crisis was the problem of moral hazard in lending, mainly domestic lending. However, he later changed his view and stated that the crisis was caused by market panic⁸⁸.

Volker, former Chairman of the United States Federal Reserve Board, rejected the crony capitalism argument. He argues that crony capitalism is bad regardless of where it exists but it did not cause the Asian financial crisis. He stated,

⁸⁵ Steven Radelet and Jeffrey Sachs, "*The East Asian Financial Crisis: Diagnosis, Remedies and Prospects*", Brookings Papers on Economic Activity, 1998, Vol. 1, pp. 1-74.

⁸⁶ Hali J. Edison, Pongsak Luangaram and Marcus Miller, "Asset Bubbles, Leverage and 'Lifeboats': Elements of the East Asian Crisis", *The Economic Journal*, 110, (January 2000), pp. 309-334.

⁸⁷ Gregory W. Noble and John Ravenhill, 2000, (eds.), "*The Asian Financial Crisis and the Architecture of Global Finance*", Cambridge: Cambridge University Press, p. 35.

⁸⁸ Paul Krugman, "Will Asia Bounce Back?" March 1998, Posted on [<http://web.mit/krugman/www>] and Krugman, Paul, "*Capitol Control Freak: How Malaysia Got Away with Economic Heresy*," Slate, 27 September 1999, Posted on [<http://web.mit/krugman/www>].

International financial crises, I might even say domestic financial crises, are built into human genome. When we map the whole thing, we will find something there call greed and something called fear and something call hubris. That is all you need to produce international financial crises in the future. I have not seen anything to raise any doubts about that.⁸⁹

Park notes that in 1996, the capital inflow into Thailand, Malaysia, Indonesia and South Korea was \$93 billion. However, in the following year, 1997, capital outflow reached a total amount of \$105 billion, equivalent to 11 percent of the total combined GDP of the states mention above⁹⁰. The reversal in the capital flows precipitated the Asian currency crisis and eventually led to the economic crisis. He further argues that one of the main causes of the Asian economic crisis is the increasing globalization in the world economy. The East Asia countries were too slow to appreciate fully the new challenges posed by the rapidly globalizing financial markets and to formulate appropriate responses. Market reaction is much faster and the magnitude is much bigger due to globalization. Consequently, globalization magnifies the cost and consequences of bad policies and weak, inefficient institutions.

Furman and Stiglitz in their argument regarding the causes of the Asian economic crisis make three hypothesis⁹¹: (1) the so-called East Asian system was ill-suited to cope with changes in the world around it, especially the increased integration of international capital markets, which increased vulnerability; (2) policies that worked well at an earlier stage of development were ill-suited for a more advanced situation; and (3) the East Asian economies abandoned the policies that had served them so well in the past.

They also argued that the most plausible explanations of the Asian economic crisis rely on some combination of these three hypotheses.

⁸⁹ Paul Volker, "A Perspective on Financial Crises", In *Rethinking the International Monetary System*, eds., Jane Sneddon Little and Giovanni Olivei, Federal Reserve Bank of Boston, Conference Series No. 43, June 1999.

⁹⁰ Jong H. Park, "Globalization of Financial Market and the Asian Crisis: Some Lesson for Third World Developing Countries" *Journal of Third World Studies*, Vol. XIX, No. 2 (Fall 2002), Association of Third World, Inc., p. 141.

⁹¹ Jason Furman, Joseph E. Stiglitz, Barry P. Bosworth and Steven Radelet, "Economic Crises: Evidence and Insight from East Asia", *Brookings Paper on Economic Activity*, Vol. 1998, No. 2 (1998), pp. 1-135.

Whitt⁹² argues that there are three possible interpretations of what caused the Asian economic crisis. The first emphasizes internal problems in the countries affected by the crisis, mainly fragility in their financial sectors resulting from lax government regulation and over reliance on government guarantees. The second interpretation emphasizes the problem of the fragility in the international capital markets. Even a modest liquidity problem in one country (Thailand) triggered a financial panic that spread to neighboring countries. Third, the role of external shocks makes Whitt's argument different from other commentators. Whitt further argues that the crisis was set off by at least three external shocks: the 1994 devaluation by China, the severe recession in Japan, and a sharp rise of the dollar in foreign exchange markets that began in 1995. These shocks were believed to have the potential to cut into the export performance of the Asian countries.

Another theory regarding the caused of the Asian economic crisis is the "Contagion Syndrome". The word "contagion" denotes the spillover effects across countries⁹³. Movements of one country's exchange rates, stock prices, and interest rates correlated with another country's movement are interpreted as contagion. The channel of contagion can be the fundamental linkage among economies and factors unrelated to fundamentals. Fundamental linkages include both "real" and "financial" linkages, while unrelated linkage concern the effect of herding. During the Asian financial crisis, the contagion syndrome was triggered when Thai Baht was devalued, which led investors to withdraw their capital from the region. Developments in Thailand caused investors to examine more critically the vulnerabilities elsewhere in the region, which they previously ignored. Once the investors found weaknesses in the financial system of other countries and lost confidence that foreign exchange reserves would cover short-term external debt, both foreign and domestic investors quickly withdrew their investments. This is what caused the full-scale financial panic that hit Thailand, Indonesia, South Korea, and to a lesser extent, Malaysia⁹⁴.

⁹² Joseph Whitt, *The Role of External Shocks in the Asian Financial Crisis*, Economic Review – Federal Reserve Bank of Atlanta, Vol. 84, No. 2 (Second Quarter 1999), pp. 18-31.

⁹³ See [www.worldbank.org/contagion] for the complete guide to contagion.

⁹⁴ Masahiro Kawai, Richard Newfarmer and Sergio Schmukler, *"Crisis and Contagion in East Asia: Nine Lessons"*, dated 27 February 2001. See [www.worldbank.org].

In support of the contagion theory, Pilbeam argues that although there were signs of deterioration in the macroeconomic fundamentals, these were not sufficient to explain the magnitude of the financial crisis. The lax lending by local banking systems fuelled excessive speculative foreign capital inflows and led to the crisis. Foreign capital was used in unproductive investments, to finance an unsustainable boom in asset prices and property valuations. This created asset bubbles within the property and stock markets and left the domestic banking system exposed to high risk once the bubbles burst. He also argues that policy errors by the affected governments and the initial IMF response exacerbate the crisis in the short term⁹⁵.

Woo states that investor panic was the cause of the Asian financial crisis. The tightening of macroeconomic policies, particularly that of fiscal policy, which was advised by the IMF, was an inappropriate approach to the panic-induced crisis. The shutting down of insolvent banks in Indonesia, South Korea and Thailand should have been carried out in a manner that was sensitive to the possibility of triggering a bank run⁹⁶.

Neely sums up the arguments on the causes of the Asia economic crisis by placing them into two categories: the fundamentalist view and the panic view⁹⁷. The fundamentalist view holds that flawed financial systems were at the root of the crisis. This view focuses on how borrowing countries' policies and practices caused the crisis. For example, most East Asia countries peg their currencies to the dollar. This policy practice served them well until 1995 because it promoted low inflation, supported currency stability, and boosted exports. However, the appreciation of the dollar against the yen and other major currencies after 1995 caused East Asia countries to lose their competitiveness in export markets. Thus, the US dollar appreciation in 1995-1997 contributed to the Asian economic crisis.

⁹⁵ K. Pilbeam, "*The East Asia Financial Crisis: Getting to the Heart of the Issues*", *Managerial Finance*, Vol. 27, No. 1 / 2 (2001), ABI/INFORM Global, pp. 111-133.

⁹⁶ Wing Thyee Woo, "*The Asian Financial Crisis: Hindsight, Insight, Foresight*", *ASEAN Economic Bulletin*, Vol. 17, No. 2 (August 2000), p. 115.

⁹⁷ Michelle C. Neely, "*Paper Tigers? How the Asian Economies Lost Their Bite*", *The Regional Economist*, The Federal Reserve Bank of St. Louis, January 1999, pp. 5-9.

As the fundamentalist view focuses on the borrowers, the panic view focuses on the lenders. Those who subscribe to the panic view believe that the absence of the macroeconomic imbalances typical of past crises illustrates problems with economic fundamentals. A swift change in expectations was the catalyst for the massive capital outflows that triggered the crisis. There are several factors to support the premise that the Asia economic crisis was panic-induced⁹⁸:

First, there were no clear warning signs indicating that the crisis was imminent. Second, the practices of international banks providing substantial loans without government guarantee or insurance to East Asia private firms and banks prior to the crisis, contradict the moral hazard argument that investors knowingly made bad deals, assuming that they will be bailed out by the government. Third, during the crisis, East Asia countries suffered from the lack of credit, even viable domestic exporters with confirmed sales could not get credit, suggesting irrationality on the part of lenders. Finally, the trigger of the crisis was the sudden withdrawal of funds from the region, not the deflation of asset values as argued by fundamentalists.

D. ASIAN ECONOMIC RECOVERY

The Asian economic crisis caused a sharp reduction in real income of most East Asian states. In 1998, the growth rate plunged from the crisis average of 6% to 10% to – 13.2% in Indonesia, -10.4% in Thailand, -7.5% in Malaysia, -6.7% in South Korea, and – 0.6% in the Philippines. However, since 1999, these East Asian countries have managed impressive recoveries. The growth rate rebounded. South Korea grew 10.7% that year, while in the other countries, the growth rate ranged from 5.4% in Malaysia to 0.2% in Indonesia⁹⁹ (Figure 2).

⁹⁸ Suk H. Kim and Mahfuzul Haque, “*The Asian Financial Crisis of 1997: Causes and Policy Responses*”, *Multinational Business Review*, Vol. 10, No. 1 (Spring 2002), pp. 37-44.

⁹⁹ Yung Chul Park and Jong Wha Lee, “Financial Crisis and Recovery: Pattern of Adjustment in East Asia, 1996-99”, ADB Institute Research Paper Series No. 45, October 2002.

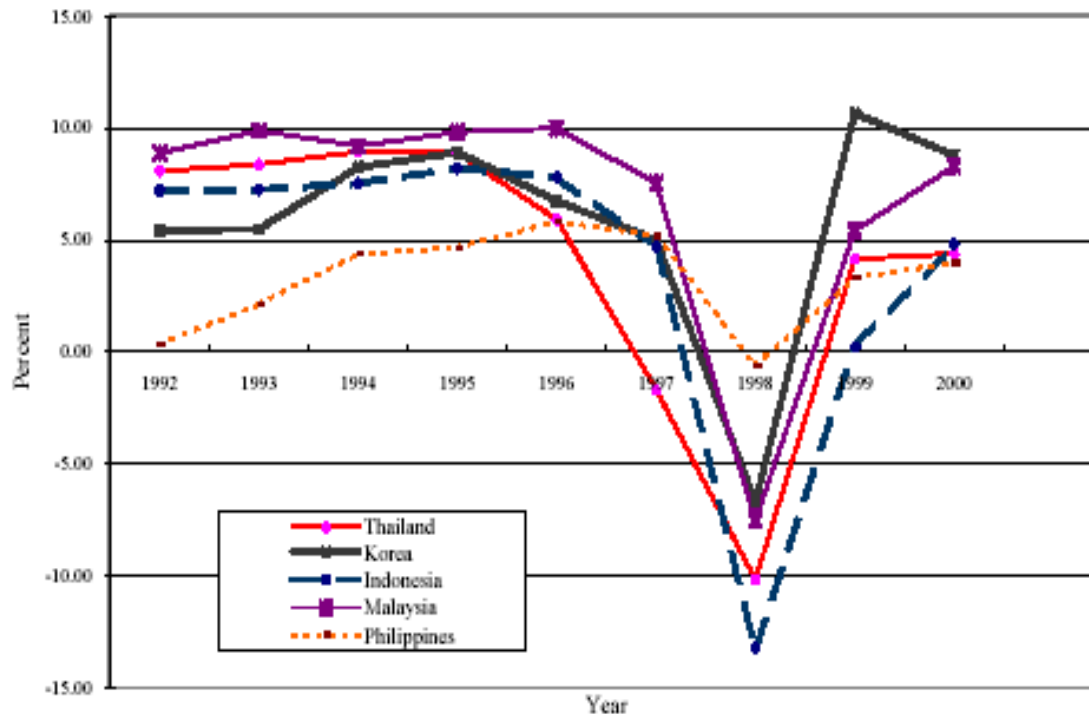


Figure 2. Adjustment of Real GDP Growth in East Asia¹⁰⁰ (From: Asian Development Bank).

Park and Lee argue that the factors contributing to the speedy recovery of East Asian economy can be categorized into two aspects: macroeconomic factors and the panic and balance sheet effect. As far as the macroeconomic factors are concerned, they argue that large real depreciation, expansionary monetary and fiscal policies, and an improvement in the global economic environment contributed to the quick post-crisis recovery of the East Asian economies. They also argue that East Asia region's higher level of openness is an important structural factor driving the speedy adjustment. With a relatively large trade sector and export-orientation, East Asian economies benefited from a large depreciation of the real exchange rate. The flexibility in the East Asian labor market facilitated this speedy adjustment.

Another macroeconomic factor that contributed to the speedy recovery of East Asian economies is the favorable external environment. The global economy was strong in 1999. The United States economy has been able to absorb a large amount of exports of

¹⁰⁰ Ibid., p. 21.

the East Asian economies. The world economy as a whole in 1999 experienced growth. These developments strongly impacted the post- East Asia economic crisis, especially during the early years of recovery.

The swift change in policy stance toward expansion in the macroeconomic policy management also provided support to the quick recovery of the East Asian economies. The easing of monetary and fiscal policy has quickened the pace of recovery. This raised the controversial question of whether the IMF policy advice to tighten monetary and fiscal policy and maintain it for a period of time was too harsh, and had exacerbated the crisis.

With regard to the panic and balance sheet effect, Park and Lee argue that the East Asian crisis has an aspect of a severe liquidity crisis caused by investor's panic. Therefore, the initial sharper contraction and faster recovery are related to changes in the expectations of foreign investors and both domestic household and firms on the economic prospects of the East Asian economies. When foreign investors began to lose confidence in East Asian economies, they withdrew their investments, and once the investor's panic calmed down and foreign capital inflows resumed, the economies of East Asia rebounded to their long-term trend.

Ito¹⁰¹ in his examination on the East Asia economies' post 1997-1998 economic crisis, argues that only three years after the Thai currency crisis, most Asian economies seem to be growing back strongly. China grew by about 8 percent in 2000, South Korea about 10 percent in 2000 and the Indonesia economy expanded by about 5 percent in 2000. He argues that weaknesses in the financial sectors undermined manufacturing successes. Therefore, once the financial sector was strengthened, the East Asian economies were able to retain their sustainable growth. By adopting an appropriate currency regime and strong financial supervision, East Asian economies managed to strengthen their financial and capital markets.

¹⁰¹ Takatoshi Ito, "Growth, Crisis, and the Future of Economic Recovery in East Asia", in Joseph E. Stiglitz and Shahid Yusuf, eds., "Rethinking the East Asia Miracle", Oxford: Oxford University Press, (2001), pp. 55-94.

Yusuf points out that the recovery of the Asian economies started as early as 1999. The recovery was due to increasing intra-regional trade, higher oil prices that aided petroleum producers, and appreciation of the yen.¹⁰² He argues that East Asian countries began to rebound because of export demand from the United States and Western Europe, especially for electronics, and higher domestic fiscal spending. By the end of 1999, the economies of East Asia attained a 4.1 percent growth and by 2000, East Asian economies attained almost 6 percent economic growth.

Based on these scholars' arguments, there is sufficient evidence that the Asian economies recovered by 1999. The growth rates of most Asian economies have managed to achieve the rate of post-crisis. It is argued that the Asian values practices such as "strong states", government policies directing the economy and effective intervention by government in the capital market by the Asian government, appear to have contributed to the fast recovery of most East Asian economies. There is evidence that Malaysia recovered much faster than Thailand or Indonesia, which adopted the IMF solutions. The Malaysian government, among other actions, intervened in the economic situation. The Malaysian government imposed capital control and instead of closing down insolvent companies, bailed them out by injecting more funds into the companies. The Malaysian central bank issued directives to local banks to merge and form only six main local banks.

E. DID THE ASIAN ECONOMIC CRISIS INFLUENCE THE ESTABLISHMENT OF THE ASEAN+3?

While growing interdependence among East Asian countries in the age of globalization has been further strengthening regional cooperation, the 1997 Asian financial crisis has awakened the urgent need for institutionalized cooperation and stronger economic integration that transcends the geographical distinction between Northeast Asia and Southeast Asia.¹⁰³

Some commentators argued that Asian economic crisis was a blessing in disguise. The Asian economic crisis is believed to have triggered the formation of the ASEAN+3, an economic cooperation forum between thirteen East Asian states, and a new form of

¹⁰² Shahid Yusuf, "The East Asian Miracle at the Millennium", in Joseph E. Stiglitz and Shahid Yusuf, eds., "Rethinking the East Asia Miracle", Oxford: Oxford University Press, (2001), pp. 1-54.

¹⁰³ Final Report of the East Asia Study Group to the ASEAN+3 Summit held in Phnom Penh, Cambodia on 4 November 2002.

East Asia regionalism. This section discusses whether the Asian economic crisis influenced the establishment of the ASEAN+3. In order to discuss this issue, the Social Construction Theory is used to argue that self-restraint and the common fate suffered by all East Asian states during the 1997-1998 Asian economic crisis was a possible cause for the East Asian leaders to engage in a communicative process to find a solution to overcome their common problem.

1. Social Construction Theory

a. Master Variables

Wendt argues that interdependence, common fate, homogenous culture, and self-restraint can be seen as independent variables instigating the states' engagement in the collective identity formation¹⁰⁴. The first three variables (interdependence, common fate, and homogeneity) are active or efficient causes of collective identity. The last (self-restraint) is an enabling or permissive cause.

All four may be present in a given case, and the more they are present, the more likely a collective identity formation will occur. However, all that is necessary for it to occur is one efficient cause combined with self-restraint. In this context, self-restraint not only means refraining or avoiding practice but also means overcoming the fear of being engulfed by the other¹⁰⁵.

b. Common Fate

Actors face a common fate when their individual survival, fitness, or welfare depends on what happens to the group as a whole¹⁰⁶. A common fate must be an objective condition rather than a subjective condition, because an objective condition can act as a cause of the formation of a collective identity, while, a subjective condition is constitutive of collective identity, not a cause. Common fate is not the same thing as interdependence. Interdependence derives from the interaction of two parties, while common fate is constituted by a third party, which defines the first two as a group. An example of a common fate can be seen in the following statement: "Even though they did

¹⁰⁴ Alexander Wendt, (1999), "*Social Theory of International Politics*", Cambridge: Cambridge University Press, p. 343.

¹⁰⁵ Ibid., pp. 343-344.

¹⁰⁶ Kim Sterelny (1995), "*Understanding Life: Recent Work in Philosophy of Biology*", British Journal for the Philosophy of Science, p. 171.

not interact with each other, Native Americans suffered a common fate at the hands of Europeans, who constituted them as a group by representing them as savages and treating them accordingly.”¹⁰⁷ Common fate is also being used to explain alliances. Perceiving a common threat posed by growing German power in the nineteenth century, in 1893, France and Russia changed their foreign policy from hostility to alliance¹⁰⁸.

Applying the definition of common fate to the Asian economic crisis, it can be argued that East Asian countries suffered a common fate at the hands of currency speculators and foreign investors. The East Asian countries were a group by their adherence to the philosophy of Asian values and the use of the Asian economic development model, which promoted paternalism, nepotism, cronyism and corruption. The currency speculators and foreign investors acted accordingly to their perceived belief during the Asian financial crisis that caused market panic.

However, instead of currency speculators and foreign investors, some commentators believed that “Most East Asians feels that they were both let down and put upon by the West “¹⁰⁹. East Asian leaders perceived that outsiders were “ganging up” in their attempts to exploit the difficulties faced by the East Asian governments. It is the perception of the need to do something collectively to counter the vulnerability to outside influence, as much as any substantial change in power relations that has driven the new quest for East Asian collaboration in the period since the Asian economic crisis¹¹⁰.

In the quest for East Asian collaboration, political leaders in the region considered regionalism as a form of a self-help mechanism in times of crises. The idea is well reflected in the statement by Thai Deputy Prime Minister Supachai:

¹⁰⁷ Alexander Wendt, (1999), *“Social Theory of International Politics”*, Cambridge: Cambridge University Press, p. 349.

¹⁰⁸ Ibid., p. 350.

¹⁰⁹ C. F. Bergsten, (2000), *“Towards a Tripartite World”*, The Economist, 15 July. See also R Higgott, (November 1998), *“The Asian Economic Crisis: A Study in the Politics of Resentment”*, New Political Economy Vol. 3, No. 3, pp. 333-356 and Richard Stubbs, “ASEAN Plus Three: Emerging East Asian Regionalism” Asian Survey, vol. XLII, No. 3, (May/June 2002), p. 448.

¹¹⁰ John Ravenhill, *“A Three Bloc World? The New East Asia Regionalism”*, International Relations of the Asia Pacific, Vol. 2, No. 2 (1 August 2002), pp. 167-195.

We cannot rely on the World Bank, Asian Development Bank, or the International Monetary Fund but we must rely on regional cooperation¹¹¹.

The idea of regional integration and the effect of common fate suffered by East Asian countries are expressed clearly by Japan:

If we are lax in these efforts towards integration, we may invite more region-wide upheavals similar to the currency crisis. It is therefore important to understand how and in what sense this region, including Japan, is a community with common fate.¹¹²

The argument by some commentators¹¹³ that the Asian economic crisis had fuelled the “politics of resentment” that helped to galvanize the regional government into action also provides the supporting argument that common fate has influenced East Asian leaders to engage in a communicative process that led to the establishment of the ASEAN+3.

c. Self-Restraint

Interdependence, common fate, and homogeneity are efficient causes of collective identity formation and thus structural change. As these causes increase, actors will be more likely to engage in a communicative process, which make states less selfish and would increase cooperation. This process can only proceed, however, if actors can overcome their fear of being engulfed, physically or psychically, by those with whom they would identify¹¹⁴. What is best for the group is not always best for the individual.

In order to overcome this egoistic behavior, actors must develop trust that their needs will be respected and not ignored or sacrificed by the group. Providing incentives to the actors can develop this trust.

By holding ourselves back, we make it possible for others to step forward and identify with us, enabling us, in turn, to identify with them. This does not by itself

¹¹¹ Quoted in The Nation, 10 June 2000.

¹¹² MOFA (The Ministry of Foreign Affairs, Japan, 1999), *Report of the Mission for the Revitalization of Asian Economy: Living in Harmony with Asia in the Twenty-First Century* [<http://www.mofa.go.jp>], Accessed 19 October 2003.

¹¹³ R. Higgott, (November, 1998), “*The Asian Economic Crisis: A Study in the Politics of Resentment*”, New Political Economy Vol. 3, No. 3, pp. 333-356 and Richard Stubbs, “ASEAN Plus Three: Emerging East Asian Regionalism” Asian Survey, Vol. XLII, No. 3, (May/June 2002), p. 448.

¹¹⁴ Alexander Wendt, (1999), “*Social Theory of International Politics*”, Cambridge: Cambridge University Press, p. 349.

generate collective identity, since without positive incentives to identify self-restraint, may simply lead to indifference. Beside external factors, such as military power or economic power, in other word coercive power, incentives are provided by other master variables: interdependence, common fate and homogeneity¹¹⁵.

In the case of the formation of the ASEAN+3, the incentive to engage in the collective identity formation was the common fate of the Asian economic crisis. The severity of the impacts of the crisis on the East Asian economies acted to erode egoistic behavior of individual states and increase the need to cooperate with or trust others. Some observers contend that cooperation with the ASEAN+3 could erode long held animosities and distrust in the long run and build confidence over time¹¹⁶. With the economic crisis is over, cooperation toward economic excellent can be seen as incentives for East Asian states to work toward stronger cooperation. Merely the size of the market of the EAFTA is an attractive factor to keep East Asia working toward its reality.

The members of the ASEAN+3, especially Japan and China, have used self-restraint in the establishment of the ASEAN+3. Obviously, whether common fate acted as incentive to spark this cooperation is fully known. Perhaps other factors, such as economic interest or national interest, also contributed to the decision to create the new regional institution. This question, however, will have to be the topic of further research.

F. CONCLUSION

The debate has been politically fraught. At one extreme, advocates of an American-style liberal market system have blamed the political and business elites of the region. The notion of “crony capitalism” has been used. In reply, advocates of the particularity of the development experience of Asia, often summed up in terms of an idea of “Asian values”, have spoken of a Western politico-financial conspiracy to undermine Asia’s success as stated by Peter W. Preston¹¹⁷.

In relation to the Asian values debate, critics of the philosophy claimed that the Asian economic crisis in 1997 severely discredited the Asian values argument. Liberal

¹¹⁵ Ibid., pp. 359-360.

¹¹⁶ Maria Anna Rowena Luz G Layador, (2000), *The Emerging ASEAN Plus Three Process: Another Building Block for Community Building in the Asia Pacific?*, The Indonesia Quarterly, Vol. 28, No. 4, pp. 434-443.

¹¹⁷ Peter W. Preston, “*Reading the Asian Crisis: History, Culture and Institutional Truths*”, Contemporary Southeast Asia, Vol. 20, No. 3 (December 1998), pp. 241-260.

Democracy has prevailed over the philosophy of Asian values¹¹⁸, or in other words, the free market economy has prevailed over the Asian economic model. However, besides the criticism, the two most vocal proponents of the philosophy of Asian values, the former Prime Minister of Singapore, Mr. Lee Kuan Yew and the former Prime Minister of Malaysia, Dr. Mahathir Mohammed, insisted that the philosophy of Asian values is not the caused of the crisis. Lee insists that the philosophy of Asian values will help these countries recover, just as they helped economic growth in the past”,¹¹⁹ while Dr. Mahathir believed that some solutions to the crisis must entail employing the “Asian traditional style of government intervention” and the solution to the crisis should involve greater collaboration between Asian countries.¹²⁰

In 1999, as the result of the Asian economic crisis, the ASEAN+3 was established to protect East Asian economies¹²¹. Advocates of the philosophy of Asian values, learned from their mistakes during and before the Asian economic crisis, reacted aggressively to protect their interests. The reaction was in the form of closer economic cooperation among the Asian economies. This development led to the establishment of the ASEAN+3. Beeson commented that

Certainly, the ASEAN+3 may provide a shell within which East Asian versions of capitalist organization may continue. It may even provide a platform for a rearticulating of the so call ‘Asian values’ discourse which was such a prominent and distinctive part of Southeast Asia identity during the boom years¹²².

This development may lead to more dynamic development in the East Asia region. Some political scientists consider the ASEAN+3 to be a stepping-stone to East Asian Regionalism, including the possibility of the creation of an East Asia Free Trade Area (EAFTA), the world’s largest RTA¹²³.

¹¹⁸ Anthony Milner, “What Happened to Asian Values”, in *Beyond the Asia Crisis*, David Goodman and Gerald Segal, eds. Rutledge, (1999), p. 13.

¹¹⁹ Lee Kuan Yew, “Asia Will Rise Again”, *Forbes*, 23 March 1998, p. 114.

¹²⁰ Mahathir Mohammed, “Mahathir Airs Asian Financial Unity”, *The Australian*, (17 October 1997).

¹²¹ Richard Stubbs, “ASEAN Plus Three” *Asian Survey*, Vol. XLII, No. 3, (May/June 2002) p. 448.

¹²² Mark Beeson, “Southeast Asia and the Politics of Vulnerability”, *Third World Quarterly*, Vol. 23, No. 3, (2002), p. 561.

¹²³ Eng Chuan Ong, “Anchor East Asian Free Trade in ASEAN”, *The Washington Quarterly*, Vol. 26, No. 2, (Spring 2003), pp. 57-72.

The formation of the ASEAN+3 clearly demonstrates that the philosophy of Asian value is still relevant, even, after severely being discredited by the Asian economic crisis. The leaders of East Asia realized they needed to collaborate to form an institution to protect Asian economies. The IMF's flawed advice made the situation worse, and led the Asian leaders to engage in the politics of resentment. They strongly believed that East Asia could not rely on the West or Western-backed organizations to come to their rescue in their time of need. East Asia will have to cooperate with each other to emerge from the economic crisis.

East Asian leaders see the Asian economic crisis as their common fate and it has acted as a stimulus to a closer and stronger cooperation among the East Asia countries. The establishment of the ASEAN+3 indicates that Asians are willing to put aside their differences and cooperate with each other in order to achieve a greater goal¹²⁴. The establishment of the ASEAN+3 also portrays that Asians are willing to tolerate greater government participation or intervention in the running of their economies. These attitudes are in accordance with the philosophy of Asian values.

¹²⁴ Japan, China and South Korea despite their problems, are willing to sit together to cooperate to solve their common problem for the first time.

IV. A REVIEW OF THE LITERATURE OF THE PHILOSOPHY OF ASIAN VALUES AND EAST ASIAN REGIONALISM

For much of the 1990s, East Asian political leaders, academics and analysts claimed that, despite ethnic, cultural and religious diversity, there was an ‘Asian way’, and that specifically Asian values existed. These values made the region unique, and proud to be different from ‘the West’.

- Koro Bessho¹²⁵

A. INTRODUCTION

During the 1990s, most East Asian states were experiencing outstanding economic growth. There was an increasingly strong voice advocating an Asian way of conducting politics and economics. This voice represents an increased sense of autonomy and confidence on the part of many East Asians, especially those in power and who possess wealth. The Asian values debate caused increasing tension between East Asians and Westerners¹²⁶. Some of the more aggressive proponents of the philosophy of Asian values challenged the “Anglo-American style of democracy”, arguing that such models were ineffective or unsuitable for and detrimental to economic development and political order, especially when employed in East Asia. These proponents claimed that East Asian successes were the result of “Asian-style democracy” or, as some labeled it, “soft authoritarianism”.¹²⁷ While, in the economic realm, the “Asian economic development model” has been argued to have brought economic success to the East Asian economies.

The 1997-1998 Asian economic crisis, however, appeared to severely discredit the proponents of the philosophy of Asian values. Despite strong condemnations of the philosophy of Asian values, however, some commentators still believe that the philosophy is still relevant. The question is whether this philosophy has led the leaders of East Asia to engage in closer cooperation and integration through their commitment in the activities of the ASEAN+3. Some political scientists even see the ASEAN+3 as a

¹²⁵ Koro Bessho, 1999, “*Identities and Security in East Asia*” IISS, New York: Oxford University Press, p. 53.

¹²⁶ Yung-Myung Kim, “*Asian-Style Democracy*”: *A Critique from East Asia*”, Asian Survey, Vol. 37, No. 12 (December 1997), pp. 1119-1134.

¹²⁷ Ibid.

stepping-stone to East Asian Regionalism, including the creation of an East Asia Free Trade Area (EAFTA)¹²⁸. The fast recovery of many of the East Asian economies surely, as this argument goes, provides evidence to support the arguments for the Asian-style democracy or soft authoritarianism, and that the Asian economic development models are still relevant in East Asia in the future.

This chapter explores the philosophy of Asian values and its influence on decision-making in the Asia region. It also examines whether the arguments that the philosophy of Asian values is not about a clash of civilization or a battle between the West and the East, but is about spurring economic development and regional stability. In addition, it also considers the arguments of those who believe that the philosophy of Asian values promotes paternalism, nepotism, cronyism and corruption. The current development of East Asian regionalism is discussed as well.

The first section of the chapter discusses the Asian values debate. The current trend of East Asia Regionalism is then explored and finally a discussion concludes the argument of whether the philosophy of Asian values influenced the establishment of the ASEAN+3.

B. THE DEBATE OVER ASIAN VALUES

The former Prime Minister of Malaysia, Dr. Mahathir Mohamed and Senior Minister of Singapore, Mr. Lee Kuan Yew, are the two most assertive advocates of the philosophy of Asian values¹²⁹. Despite strong opposition to the Asian values argument, especially after the Asian economic crisis in 1997-1998, both of them have argued that the philosophy of Asian values did not cause the Asian economic crisis. Instead, they insist that the philosophy of Asian values helped these states to recover from the

¹²⁸ Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism" Asian Survey, Vol. XLII, No. 3, (May/June 2002), p. 448.

¹²⁹ The arguments of these two main proponents of Asian values are discussed in length by two authors namely: Michael D. Barr in his article "Lee Kuan Yew and the 'Asian Values' Debate and Khoo Boo Teik in his article "The Value(s) of a Miracle: Malaysian and Singaporean Elite Constructions of Asia".

economic crisis¹³⁰. On the other hand, some observers now claim that “Asian values”, far from explaining Asia’s economic success, lie at the root of the cronyism and corruption afflicting the region¹³¹.

1. Did the Asian Economic Crisis Settle the Asian Values Debate?

The Asian economic crisis almost crippled some Asian states and led to the collapse of some governments, including Indonesia, South Korea and Thailand. Thompson¹³² argues that the Asian values debate received international attention because of the assertion that Asian culture particularity justified the rejection of liberal democracy that was matched with impressive economic results. He compares the philosophy of the government of Malaysia and Singapore with that of Imperial Germany’s “German way”. The Asian values discourse was part of an effort to de-politicize students, civil servants, professionals, and small-business owners. In the case of Indonesia, the Asian economic crisis had caused dissatisfaction with the government. The government could no longer justify their authoritarian policies and the people were no longer willing to tolerate such policies in the face of severe economic difficulties. The philosophy appeared to be fragile in the face of economic difficulties.

Milner expands this economic argument and commented that the Asian values philosophy was withering away as an outcome of the Asian economic crisis¹³³. Coyle notes, “the crisis will finally lay to rest this unquestioning worship of Asian values... capitalism in its free-wheeling, Anglo-Saxon variety is coming into its own”¹³⁴. Fukuyama¹³⁵ viewed the Asian economic crisis as the end of the Asian values argument; he stated that “what the current crisis will end up doing is to puncture the idea of Asian exceptionalism. The laws of economics have not been suspended in Asia”.

¹³⁰ ‘Asia Will Rise Again’, *Forbes*, 23 March 1998,114 also ‘No Gain in Making Others Poor’, *Utusan Express*, 2 October 1997.

¹³¹ Francis Fukuyama, 2001, “*Asian Values in the Wake of the Asian Crisis*” in Democracy, Market Economic & Development: An Asian Perspective, ed. Farrukh Iqbal and Jong-II You, Washington: The World Bank Washington D.C. p. 149.

¹³² Mark R. Thompson, ‘Whatever Happened to Asian values?’ *Journal of Democracy*, vol. 12, No 4, October 2001, pp. 154-165

¹³³ Anthony Milner, “What Happened to Asian Values”, in *Towards Recovery in Pacific Asia*, Gerald S. Segal and David S. G. Goodman, eds., London and New York: Routledge (2000), pp. 56-68.

¹³⁴ Ibid.

¹³⁵ Francis Fukuyama, “*Asian Values and the Asian Crisis*”, *Commentary*, February 1998, p. 27.

The economic performance argument was flawed because this line of argument would also be true for a democratic government. The toppling of a government because of bad economic performance can happen with any form of government. Poor economic performance does not differentiate between political ideology and system. The question is whether a particular system generates poor performance. Woo notes that the Asian Economic crisis caused “political volcanoes to erupt in several countries”.¹³⁶ The type of government did not appear to matter as both democratic (Thailand) and authoritarian (Indonesia) governments collapsed in the face of the crisis.

Zuckerman decried the Asian economies for “crony capitalism”, ridiculing this as an inevitable byproduct of the philosophy of Asian values. He further stated, “Asian values have become Asian liabilities”¹³⁷. During the Asian economic crisis, much was said about the close cooperation that existed between business and government in the region, and this is what is meant by “crony capitalism”. The implication was that it was directly responsible for the crisis. It is argued that if East and Southeast Asia had followed the market economics ‘rule of law’ and not interfered or remained distant in the relationship between business and government, the Asian economic crisis would not have happened. This assertion is not accurate. “Crony capitalism” was not directly responsible for the Asian economic crisis, but this “crony capitalism” was an outgrowth of the philosophy of Asian values and this contributed to the severity of the crisis.

Krugman, a well-known economist, summed up his view on the causes of the Asian economic crisis, as “a punishment for Asian values, even if the punishment *was* disproportionate to the crime”. He further stated that “crony capitalism” is the spirit that pushed Asia to the brink, and was the problem of moral hazard in lending, mainly domestic lending¹³⁸. Later in 1999, he changed his view and stated “...*the Asian*

¹³⁶ Wing Thye Woo, “*The Asian Financial Crisis: Hindsight, Insight, Foresight*”, ASEAN Economic Bulletin, Vol. 17, No. 2 (August 2000), p. 113.

¹³⁷ Mortimer Zuckerman, “Japan Inc. Unravels: How Asian Values Have Becomes Asian Liabilities,” *U.S. News & World Report*, 17 August 1998.

¹³⁸ Paul Krugman, “*Will Asia Bounce Back?*” March 1998, Posted on [<http://web.mit/krugman/www>], Accessed 15 June 2003.

economic crisis is less a matter of economic fundamentals than it was a case of a self-fulfilling prophecy, of market panic that, by causing a collapse of the real economy, ends up validating it-self”¹³⁹.

Perkin also questions the accuracy of the “crony capitalism” assertion, in that “close business-government relations were one manifestation of a broader phenomenon, the reliance on personal relationships to provide business transactions with the security that is an essential component of any successful commercial system”¹⁴⁰. Perkin explains that historically, laws backed up by an independent judiciary achieved the security of business transactions in Europe and North America. This development of the rule of law took many centuries. However, there was no comparable development of this kind of legal system in East and Southeast Asia until it was brought in by the colonial powers, but few turned to these systems. Therefore, commerce had to have something to substitute for the rule of law. The substitute was achieved through the strengths of East Asia culture or the close personal relationships based on family ties, as well as ties that extended beyond the family. He further states that although this system did create opportunities for corruption, the system itself was not inherently corrupt. The system might create moral hazard that led to excessively risky and unwise investment behavior. He further adds that many kinds of insurance also create a moral hazard situation, but we do not conclude that we should abolish them. Perkin believes that the philosophy of Asian values served the Asian economic development well for nearly half of a century. However, it may not be the case in the future, and East Asia needs to modernize its economic system base on the rule of law to meet greater challenges in the future.¹⁴¹

Borrowing the idea of Paul Volker, former Chairman of the United States Federal Reserve Board, “crony capitalism” is bad regardless whether it is practiced in East Asia or in any other part of the world. However, as some economists have argued, “crony capitalism” did not cause the Asian economic crisis. While, the existence of cronyism

¹³⁹ Paul Krugman, “*Capitol Control Freak: How Malaysia Got Away with Economic Heresy*,” *Slate*, 27 September 1999, posted on [<http://web.mit/krugman/www>], Accessed 15 June 2003.

¹⁴⁰ Dwight H. Perkin, 2000, “*Law, Family Ties, and the East Asian Way of Business*”, in *Culture Matters: How Values Shapes Human Progress*, ed. Lawrence E. Harrison and Samuel P. Huntington, New York: Basic Books, pp. 232-234.

¹⁴¹ *Ibid.*, p. 241.

and paternalism may not have directly caused the Asian economic crisis, these practices may have exacerbated the crisis. The severity of the crisis could have been reduced if the government had taken more drastic measures earlier at the onset of the crisis. However, the close ties between the Asian government and private companies may have inhibited the debate for a strong response¹⁴².

With respect to the assertion that the Asian values argument would wither away after the Asian economic crisis, Milner states

...for many people the world has a Western flavor. And the fact that a global economy seems to have failed Asian states makes it possible that a long ideological campaign that seeks to undermine the colonial heritage, and that has underpinned the 'Asian values' proclamations, may gain rather than lose momentum in the next decades¹⁴³.

East Asia, from this perspective, is externally vulnerable to economic dislocation and to political intervention from international financial institutions and the United States. The IMF's policy advice appeared to worsen, not improve, economic conditions. The perception that the IMF's policy prescriptions were flawed fuelled a sense of resentment among East Asia states that sparked regional collective initiatives, including the establishment of the ASEAN+3. The ASEAN+3 may, as this argument goes, provide a shell within which East Asia versions of capitalism may continue. The ASEAN+3 may also provide an insulated platform for a re-articulation of the Asian values discourse aids an environment within which distinctively Asian development projects can be taken up.¹⁴⁴

The philosophy of Asian values, from the perspective of several researchers, will continue to dominate the Asian style of governance as well as to influence economic practices in Asian economies. If taken in a positive manner, these arguments highlight the positive aspects of the philosophy of Asian values as a tool for cooperation and

¹⁴² Joseph E. Stiglitz, "From Miracle to Crisis to Recovery: Lessons from Four Decades of East Asian Experience", in Joseph E. Stiglitz and Shahid Yusuf, eds., "Rethinking the East Asia Miracle", Oxford: Oxford University Press, (2001), pp. 509-526.

¹⁴³ Anthony Milner, "What Happened to Asian Values", in Towards Recovery in Pacific Asia, Gerald S. Segal and David S. G. Goodman, eds., London and New York: Routledge (2000), pp. 56-68.

¹⁴⁴ Mark Beeson, 'Southeast Asia and the Politics of Vulnerability' Third World Quarterly, Vol. 23, No. 3, (2002) pp. 549-564.

integration among Asian states. The difficulties faced by Asian states during the Asian economic crisis appear to have heightened the need for closer cooperation and integration.

Many western observers, on the other hand, do not understand the philosophy of Asian values.¹⁴⁵ The Asian values debate thus tends to focus primarily on the relationship between Asian economic performance and the Asian system of governance. Some researchers argue that the inherent bias of Western commentators and researchers towards Western styles of governance and development models led to the inevitable conclusion that proponents of the philosophy of Asian values were supporters of authoritarian regimes. The debate tends to linger around the abuses of human rights, cronyisms, paternalistic behaviors and illiberal practices of Asian governments. In short, most Western commentators accused Asia's authoritarian governments of using the Asian values debate to legitimize their illiberal practices. These accusations were founded on the principles of Western liberalism and were not culturally sensitive to the unique nature of the Asian people and the region¹⁴⁶. From this perspective, the debate on the philosophy of Asian values has just begun.

To sum up the arguments of the scholars, the tremendous impact of the Asian economic crisis on the ASEAN states casts doubt on the philosophy of Asian values. While many expected the philosophy of Asian values to be cast aside in light of the financial and economic crisis, it appears the opposite has occurred. East Asia states are cooperating more closely now than prior to the crisis. The establishment of the ASEAN+3 suggests that the debate on the philosophy of Asian values is far from over. A new form of East Asia regionalism and multilateralism is emerging in the region as the result of the Asian economic crisis. The philosophy of Asian values will shape the future of East Asian regionalism and multilateralism.

¹⁴⁵ Osman Bakar, "Asian Values, or Universal Values Championed by Asia? Implications for East-West Understanding", *Social Semiotic*, Vol. 8, Nos. 2/3, (August-December/1998), pp. 169-76.

¹⁴⁶ Ibid.

C. EAST ASIAN REGIONALISM

In short, for the foreseeable future, East Asia will be marked by a form of ‘reactionary regionalism’ in which regional initiatives are designed to mediate and moderate external influences [especially by the United States]¹⁴⁷.

During the 1990s, the East Asia region witnessed an increase in multilateral security and economic dialogues and institution building activities. APEC was formed in 1989, ARF in 1994 and ASEM in 1996. However, the enthusiasm for multilateralism in the region faded temporarily, as the result of the 1997-1998 Asian economic crisis, which demonstrated that Asian institutions were not geared to handling a major regional crisis¹⁴⁸. Neither APEC nor ASEAN could provide much assistance to those countries that were in trouble during the crisis. On the other hand, the Asian economic crisis may have been a blessing in disguise to the Asian states. Despite the negative effects of the crisis on Asian economies, one of the positive effects of the Asian economic crisis is that it is seen as a catalyst for the formation of the ASEAN+3 and increased bilateral trade agreements between Northeast Asia states and ASEAN’s states. These developments can be seen as a stepping-stone for new East Asian regionalism.

Other observers see the developments in East Asia as less significant. The ASEAN+3 like other East Asia regional organizations promises much, but has delivered relatively little so far¹⁴⁹. Like APEC, the ASEAN+3’s adherence to the “ASEAN Way” of consensus and voluntarism would likely make the development of effective and binding regional initiatives more difficult. The different policy positions and long-standing regional rivalries between Japan and China also make East Asia cooperation more difficult. Finally, the most important factor is that East Asia’s development emanates from outside the region, that is, East Asia tends to serve the needs of the economies of the United States and European Union.

¹⁴⁷ Mark Beesons, “*ASEAN Plus Three and the Rise of Reactionary Regionalism*”, Contemporary Southeast Asia, Vol. 25, No. 2, (August 2003), pp. 251-268.

¹⁴⁸ Amitav Acharya, 2002, “*Regionalism and Multilateralism: Essay on Cooperative Security in the Asia-Pacific*”, Singapore: Time Academic Press, pp. 276-277.

¹⁴⁹ Mark Beesons, “*ASEAN Plus Three and the Rise of Reactionary Regionalism*”, Contemporary Southeast Asia, Vol. 25, No. 2 (August 2003), pp. 251-268.

Ravenhill¹⁵⁰ seem to agree with Beeson's "Reactionary Regionalism" argument, in that the new collaboration between Asian states has produced only modest results. Neither an East Asian preferential trade agreement nor an Asian Monetary Fund is likely to materialize. The underlying power realities and fundamental economic interests are unchanged. Even though Ravenhill agreed that the constructivist perspectives were persuasive in arguing that the financial crisis had promoted the sense of shared identity in East Asia, he stated that the effects of the economic crises have not led to a dramatic departure from East Asia's previous policies.

While Acharya¹⁵¹ did not reject the emergence of the ASEAN+3 as one of the outcomes of the crisis, he discussed in greater detail the consequences of the Asian economic crisis on Asia-Pacific regionalism and multilateralism. He stated that even without the Asian economic crisis, skeptics about the achievement of Asian multilateral institutions had raised many questions. There are several reasons for the negative assessment. ASEAN, APEC and ARF have acquired a reputation for being more "talk shop" institutions, with little to show in terms of concrete policy initiatives and action. The failure of these institutions to take effective action during the Asian economic crisis and the East Timor problem indicate the weakness of the ASEAN Way decision-making process and the principle of non-interference. The ASEAN Way, which was built upon strong inter-personal ties among its founders, has been diluted by generational change and membership expansion. The non-interference principle in the internal affair of states was severely criticized and has caused a division among its members: those who are loyal to the old principle and those who call for a more active role of ASEAN and ARF in regional affairs. The latter seek to replace the old doctrine with the "constructive engagement" method.

Acharya have identified four main characteristics of regionalism and multilateralism in the Asia-Pacific during its formative years. These include: (1) the importance of "soft power" over structural or hegemonic leadership; (2) the preference for "soft institutionalism" over legalistic and formalistic cooperation; (3) the roles of

¹⁵⁰ John Ravenhill, "A Three Bloc World? The New East Asia Regionalism", *International Relations of the Asia Pacific*, Vol. 2, No. 2 (August 1, 2002), pp. 167-195.

¹⁵¹ Amitav Acharya, 2002, "Regionalism and Multilateralism: Essay on Cooperative Security in the Asia-Pacific", Singapore: Time Academic Press.

norms and identity in institution building; and (4) state-centrism. However, these characteristics were strongly questioned as a result of the Asian economic crisis, and there have been changes to these characteristics to reflect broader and more long-term geopolitical and economic transformations in the international system.

As regards the ASEAN+3, Acharya argues that the concept faces a number of serious obstacles. The most problematic is that neither China nor Japan seems to be willing to accept the level of engagement in this forum expected of them by ASEAN. Therefore, in view of the fact that two of the major players in the ASEAN+3 framework seem reluctant to meet ASEAN's expectations, not much can be expected of this forum in the immediate future.

While Beesons, Ravenhill and Acharya have provided strong and convincing arguments, they have underestimated the significance, strength and flexibility of the culture in institution building. Ravenhill underestimated the constructivist argument without giving clear evidence to support his argument, while Acharya underestimated the willingness of China and Japan to cooperate with each other as well as with ASEAN. The Asian economic crisis had created a sense of interdependence among East Asian states, suffering a common fate that caused East Asia states to realize that they need each other to overcome problems of such magnitude and to put aside their differences. They cannot totally rely on external assistance, but need to cooperate with those who share common values, identity, priorities and beliefs to solve the common problem.

Contrary to the Beesons, Ravenhill and Acharya arguments, Stubbs believes that the ASEAN+3 has the potential to become the dominant regional institution in East Asia¹⁵². He argues that the emergence of the ASEAN+3 was due to three key developments: the success of other regional organizations and arrangements like the European Union (EU) and the North American Free Trade Agreement (NAFTA); the limitation of ASEAN and APEC to act as the key regional player to help East Asia states during the Asian economic crisis; and the impact of the Asian economic crisis have been enhancing the significance of the ASEAN+3 process.

¹⁵² Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?" *Asian Survey*, Vol. XLII, No. 3, (May/June 2002), pp. 440-441.

The ASEAN+3 was not something that emerged out of the blue. It is considered the latest manifestation of the evolutionary development of East Asia regional cooperation. There were several proposals prior to the ASEAN+3. In 1970, South Korea called for an Asian Common Market, in 1988, Japan suggested an Asian Network, and the immediate precursor was the East Asia Economic Caucus, proposed by the former Prime Minister of Malaysia, Dr. Mahathir Mohamed, in 1990. Stubbs, in analyzing the evolution of the long-term trends of East Asia regionalism, argues that Asian culture and values are the key factors that push the East Asia Identity forward.

Stubbs also argued that the Asian economic crisis was the major catalyst in institutionalizing the ASEAN+3¹⁵³. He listed three reasons for his assertion. First, it added to the sense of a common history that has emerged in the region as the result of the repercussions and the fallout from the crisis. Second, it demonstrates the inability of APEC and ASEAN to provide assistance to troubled states during the crisis. Third, the crisis fueled what Richard Higgott has called “the politics of resentment”¹⁵⁴. He also describes the effects of the IMF’s and U.S. government’s failure to appreciate the unique characteristics of the Asian currency crisis which led to the misdiagnosis of the problem and provided incorrect solutions that exacerbated the situation.

Finally, Stubbs explains that the main obstacles, which will impede the development of the ASEAN+3, are rooted in the many variations to be found in the societies and economies of the East Asian countries. He argues that these obstacles are unlikely to slow down ASEAN+3’s growth. He also predicts that the U.S. government might revert to its policy on the EAEC and try to subvert the development of the ASEAN+3.

Higgott argues that the crisis needs to be interpreted in an ideological fashion, reflecting a Western conceptual inability to deal with the resistance of the Asian model of economic development. He discusses the policy remedies that emanated from the IMF. As with Stubbs, Higgott believed that the policies will not be appreciated in the long run and caused politics of resentment among Asian states and caused them to come together

¹⁵³ Ibid., p. 448.

¹⁵⁴ Richard Higgott, “The Asian Economic Crisis: A Study in the Politics of Resentment,” *New Political Economy*, Vol. 3, No. 3, (November 1998), pp. 333-356.

as a closer regional identity. He also offers evidence that the crisis has enhanced East Asia economic cooperation and portrays the limits of APEC. Asian leaders, he argued, concluded that the IMF and U.S. government misdiagnosed the Asian economic crisis and provided solutions that exacerbated the situation and led to enhanced development of Asian regionalism.

Ong¹⁵⁵ examined the potential creation of EAFTA, which is one of ASEAN+3's proposed activities. He stated that EAFTA is the world's largest potential RTA. He argues that the Northeast Asian countries were forced to review their foreign trade policies and consider the merit of expanding trade because of developments in the past four years. He listed the 1997-1998 Asian financial crisis as the first development. The second development is the rapid development of FTAs in other parts of the world. The third development is the rapid expansion within Asia and the fourth development is the uncertainty about the future of a multilateral framework. As regards the first development, he stated that "the shocking domino effect of the crisis revealed the high degree of interdependence and interconnectivity among Asian economies, causing these Asian nations to belatedly recognize the overwhelming impact of globalization."

Given these four developments and Higgott's "politics of resentment" argument, it can be concluded that the establishment of the ASEAN+3 and its activities are an indication of closer cooperation between its members. It provides the evidence that Asian regionalism is moving forward positively. However, there are five main obstacles to the development of the ASEAN+3 as listed by Richard Stubbs.¹⁵⁶ First, foreign agencies, especially the IMF, and foreign powers, notably the U.S., are blamed in some quarters for Asia's economic and social troubles and this has led to a resurgence of nationalist sentiment. Second are the domestic political conflicts and internal problems. Third, conflicting interest among the ASEAN+3 members could constrain the extent to which cooperation takes place. Fourth, a series of bilateral FTAs between ASEAN+3

¹⁵⁵ Eng Chuan Ong, "Anchor East Asian Free Trade in ASEAN", the Washington Quarterly, 29:2, (Spring 2003), pp. 57-72.

¹⁵⁶ Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism" Asian Survey, Vol. XLII, No. 3, (May/June 2002), pp. 451-453.

members could provide an alternative cooperation arrangement to ASEAN+3 regionalism and fifth, the U.S. government might revert to its policy on the EAEC and try to subvert the development of the ASEAN+3.

Based on the examination of the arguments mentioned above, the philosophy of Asian values survived the impact of the Asian economic crisis. Instead of the assertion that the Asian economic crisis would bring an end to the Asian values debate, it has added a new perspective to the debate: the emergence of East Asia regionalism. The establishment of the ASEAN+3 raised a question of whether the philosophy of Asian values has a role to play in new developments in the region.

D. DID ASIAN VALUES INFLUENCE THE ESTABLISHMENT OF THE ASEAN+3?

With respect to the relationship between culture and institutions, Daniel Etounga-Manguelle says ‘Culture is the mother; institutions are the children’.¹⁵⁷

The establishment of the ASEAN+3 in 1997 marked the emergence of a new East Asia regionalism. This section discusses whether the philosophy of Asian values influenced the establishment of the ASEAN+3. The Social Construction Theory is used to argue that homogeneity is a possible cause for the East Asian states to engage in a communicative process. The philosophy of Asian values, as part of the communicative process, is argued as having led to the establishment of the ASEAN+3¹⁵⁸.

According to Wendt, interdependence, a common fate, a homogenous culture and self-restraint can be seen as independent variables instigating states’ engagement in communicative processes¹⁵⁹. Wendt argues that homogeneity or likeness can be understood in two relevant senses, in their corporate identities and their types of identities. The first sense refers to the extent to which they are similar with respect to basic institutional form, function and causal powers. As an example, states are not alike with non-state actors. The second sense of homogeneity concerns type variation within

¹⁵⁷ Lawrence E. Harrison, 2000, “*Why Culture Matters*”, in *Cultures Matters: How Values Shape Human Progress*, eds., Lawrence E. Harrison and Samuel P. Huntington, New York: Basic Books, p. XXViii.

¹⁵⁸ Alexander Wendt, (1999), “*Social Theory of International Politics*”, (Cambridge: Cambridge University Press), Chapter 7.

¹⁵⁹ Ibid.

the corporate identity. As an example, democratic states are not alike with authoritarian states. The meaning of homogeneity, in the case of the Asian sovereign states, applies to the common political philosophy of Asian values. Some might also argue that the majority of East Asia states are relatively homogeneous with respect to a mildly authoritarian government system and preference for a capitalist based economic system. Homogeneity also entails a subjective dimension in that states categorize themselves as being alike with regard to the features that define a group¹⁶⁰.

The types of regimes and cultural values will be examined to determine whether the East Asian states are homogeneous. The practices of the “ASEAN Way” among East Asia states are also considered to determine whether the ASEAN Way promotes homogeneity.

1. Type of Regime

This section categorizes the East Asia states according to the type of regime they adopt: democratic government or authoritarian government. In order to do this, the data obtained from the Freedom House’s Freedom in the World survey was utilized. This organization conducts an annual evaluation of political rights and civil liberties throughout the world to determine the political rights that enable people to participate freely in the political process. Civil liberties include the freedoms to develop views, institutions, and personal autonomy apart from the states¹⁶¹.

Analysis of the data below shows that only four countries: the Philippines, Thailand, Japan and South Korea are categorized as free as regards their political rights and civil liberties practices. The other nine East Asia countries are categorized either partly free or not free. Therefore, it can be concluded that in the majority of the East Asia countries, there are a lack political rights and limited civil liberties available to their citizens. The argument can be made that these states adopted an authoritarian type of government.

¹⁶⁰ Ibid., pp. 353-354.

¹⁶¹ [<http://www.freedomhouse.org/ratings/>], Accessed 15 November 2003.

Table 2. East Asia States Freedom Ratings (1999 – 2000)¹⁶² (From: Freedom House).

Country	Political Right	Civil Liberty	Classification
Malaysia	5	5	PF
Singapore	5	5	PF
Indonesia	4	4	PF
The Philippines	2	3	F
Thailand	2	3	F
Brunei	7	5	NF
Myanmar	7	7	NF
Laos	7	6	NF
Cambodia	6	6	NF
Vietnam	7	7	NF
Japan	1	2	F
China	7	6	NF
South Korea	2	2	F

Source: Freedom House

Legend:

F – Free (1.0 - 2.5)

PF – Partly Free (3.0 – 5.5)

NF – Not Free (5.5 –7.0)

Diamond classified types of governments or regimes into four categories. The first is liberal democracies, the second, electoral democracies, the third, pseudo-democracies and finally, the fourth is authoritarian regimes¹⁶³. Diamond describes liberal democracy as encompassing extensive provisions for political and civic pluralism as well as individual and group freedom. This freedom and pluralism are protected by the rule of law that ensures all citizens have political and legal equality, and the state and its agents are subject to the law. He argues that electoral democracy must at least meet the minimal requirements of a civilian as well as a constitutional system in which the legislative and chief executive offices are filled through regular, competitive, and multiparty elections with universal suffrage.

Pseudo-democracies are less than minimally electoral democracies but are still distinct from purely authoritarian regimes. There exist formal democratic political

¹⁶² Ibid.

¹⁶³ Larry Diamond, 1999, *“Developing Democracy: Toward Consolidation”*, Baltimore and London: The Johns Hopkins University Press, pp. 7-16.

institutions, such as multiparty electoral competition, that masks the reality of authoritarian domination. Finally, he argues that non-democracies or authoritarian regimes do not fulfill all or most of the characteristic of a democratic system. Diamond categorized East Asian states as follows:

Table 3. East Asia Type of Government¹⁶⁴

Liberal Democracies	Electoral Democracies	Pseudo-Democracies	Authoritarian Regimes
		Malaysia	
			Singapore
		Indonesia	
Philippines			
	Thailand		
			Brunei
			Myanmar
			Laos
		Cambodia	
			Vietnam
Japan			
			China
South Korea			

Diamond's characterizations show that most East Asian states are characterized as authoritarian regimes and pseudo-democracies. Based on the two explanations above, it can be argued that most East Asian governments are adopting an authoritarian or pseudo-democracy type of government. In this sense, East Asian states are homogeneous in their form of government.

Another aspect of East Asian states that appears to be homogenous is their system of economy. Most East Asian states adopted the capitalist based economic system, and to be more specific, they adopted the Asian economic development model¹⁶⁵. This economic model is unique to the East Asian economies.

The homogeneity of East Asian politics and economics system makes the communicative process amongst East Asians much easier. They are able to identify

¹⁶⁴ Ibid., pp. 279-280.

¹⁶⁵ Shahid Yusuf, 2001, *"The East Asian Miracle at the Millennium"* in Rethinking the East Asia Miracle, eds., Joseph E. Stiglitz and Shahid Yusuf, New York: Oxford University Press, pp. 5-7.

themselves as belonging to the same group. This is clearly expressed by the Malaysian Minister of Industry and Foreign Trade Rafidah Aziz during the debate about whether Australia and New Zealand are part of the East Asia region and should be included in the establishment of the institution that Northeast and Southeast Asia are integral members of a broader concept. She stated they are not [part of] East Asia. They will have to fit into the APEC process.¹⁶⁶

It can be argued that geographically Australia and New Zealand are within the East Asia region. However, politically, economically and culturally, Australia and New Zealand are not Asian. This argument, to put it mildly, shows that culture and values plays an important aspect in the formation of a collective identity.

These facts also are in accordance with the assertion of the philosophy of Asian values, which claimed that Asians have a greater concern for the economic well being than civil liberties and human rights. Asian are supposedly communitarian rather than individualist, and place the welfare and collective good of the community over individual rights¹⁶⁷.

2. ASEAN Way

Another aspect that is alike amongst East Asian states is the practices of the ASEAN Way in their intra and inter-regional relationship. To recap, the ASEAN Way is a distinctive approach to inter-state relations and regional cooperation. It consists of the avoidance of formal mechanisms and legalistic procedures for decision-making, and reliance on consultation and consensus to achieve collective goals. The ASEAN Way also emphasizes quiet diplomacy and rejection of adversarial posturing in negotiations¹⁶⁸. East Asian states, in their interaction in regional institutions such as ARF, APEC, ASEM and the ASEAN+3, adopt the ASEAN WAY in their decision-making process¹⁶⁹.

¹⁶⁶ Asia Times Online, 8 March 2001.

¹⁶⁷ Khoo Boo Teik, *"The Value(s) of a Miracle: Malaysian and Singapore Elite Constructions of Asia"*, Asian Studies Review, Vol. 23, No. 2, (June 1999), p.182.

¹⁶⁸ Amitav Acharya, 2000, *"The Quest for Identity: International Relations of Southeast Asia"*, New York: Oxford University Press, p. 128.

¹⁶⁹ Linjun Wu, *"East Asia and the Principle of Non-Interference: Policies and Practices"*, Maryland Series in Contemporary Asian Studies, No. 5, 2000 (160).

Even though the ASEAN Way has been criticized for being ineffective and causing a lack of action by the ASEAN and APEC to assist East Asians that were in economic difficulties, especially during the Asian economic crisis, it remains relevant to East Asians as a tool in their intra and inter-regional interactions. More importantly, the practice of the ASEAN Way by East Asian countries has led them to identify themselves as belonging to the same group with common values and practices.

Frequent interaction amongst the leaders of East Asian states in these forums and compliance with the same norms and practices (the ASEAN Way) can shape the East Asian identity. The interactions and practices reduce diversity and accentuate homogeneity, especially in the political, economic, social and cultural spheres. Archarya argues that region identity can be formed through a diffusion of norms, policies and practices of regional organizations and associations, formal or informal. Regional organizations can promote common ideologies and political values, adopt convergent development policies, facilitate their implementation, and take steps to reduce inequality among members. This he argues could produce greater homogeneity and commonality that are essential to regional identity¹⁷⁰.

To sum up the discussion in this section, homogeneity on its own is not sufficient to cause states to engage in a communicative process to form a collective identity. However, homogeneity, coupled with a common fate, will act as an effective stimulus to encourage or force states to engage in a communicative process, especially when their existence is at stake. Examples to illustrate this point can be seen in the case of the European monarchies where they were very homogenous and fought wars for centuries, but only when facing the common threat of domestic revolution did their homogeneity become a basis for collective action in the Concert of Europe¹⁷¹. On the other hand, despite a common language, religion, and pan-Arab ideology, Arab states have shown little unity, especially after they consolidated territorial sovereignty¹⁷².

¹⁷⁰ Amitav Acharya, 2000, *"The Quest for Identity: International Relations of Southeast Asia"*, New York: Oxford University Press, p. 10.

¹⁷¹ Paul Schroeder, 1993, *"The Transformation of Political Thinking, 1787-1848,"* in R Jervis ed., *Coping with Complexity in the International System*, Boulder: Westview, pp. 47-70.

¹⁷² Barnett, Michael, 1995, *"Sovereignty, Nationalism, and Regional Order in the Arab States System"*, *International Organization*, 49, pp. 479-510.

The examples above demonstrate that the homogeneity argument is not absolute. However, one must not dismiss homogeneity altogether as a cause of the formation of collective identity, if other things being equal, homogeneity facilitates consensus by reducing conflict and increasing the ability to recognize oneself and others as belonging to the same group.

E. CONCLUSION

Proponents of the philosophy of Asian values claimed that the East Asia economic boom in the 1990s was the result of the adherence to Asian values and the Asian economic development model. Many advocates of a liberal democracy and free market economy do not accept this argument. They claim that Asian values are a tool for legitimizing authoritarian regimes. It is merely a creation of Asian elites to justify their authoritarian practices in order to remain in power. In 1997, the Asian economic miracle ended abruptly. The crisis severely discredited the Asian values argument. It left little doubt in the minds of many observers that the Asian economic crisis marked the end of the Asian values debate. The Asian economic crisis has revealed the hypocrisy of the philosophy of Asian values by exposing the underlying weaknesses of the Asian economy. The practices of the philosophy of Asian values created crony capitalism, which some commentators believed was the cause of the Asian economic crisis. The effects of the Asian economic crisis caused a change of government in Indonesia and Thailand.

A strong belief in the philosophy of Asian values and the effect of the Asian economic crisis, which was seen as a common fate suffered by East Asia states, led the Asian governments to realize the need for closer cooperation among themselves. In 1999, the ASEAN+3 was established as a mechanism to deter the crisis from reoccurring in the future. This marked the beginning of a new East Asia regionalism. The ASEAN+3 has managed to spark a dynamic development in the East Asia region. The ASEAN+3 is working towards the possible creation of the world's largest Regional Trade Area - the EAFTA. How successful the ASEAN+3 will be in the future remains to be seen.

The speedy recovery of the East Asia economy started as early as 1999, only after less than two years of economic difficulties. This quick recovery raised questions as to the actual cause of the crisis. It also challenges the accuracy of the critiques of the Asian economic development model. The assertion made by some commentators that the philosophy of Asian values breeds “crony capitalism” that caused the Asian economic crisis is flawed. Instead, besides favorable external factors, such as a strong global economy and a high import rate from the United States, the strong belief in the philosophy of Asian values and the perseverance of the East Asians to overcome the economic crisis helped in the speedy recovery of their economies.

With the East Asia economy already recovered, coupled with the new Asian regionalism, whether East Asia will experience another economic miracle in the future is yet to be seen. The philosophy of Asian values will remain relevant to East Asia societies in the future.

V. CONCLUSION

A. MOTIVATION

Cultural factors and influences...loom large...human cultural traits vary greatly around the world. Some of that cultural variation is no doubt a product of environmental variation. ...but an important question concerns the possible significant of local cultural factors unrelated to the environment. A minor cultural factor may arise for trivial, temporary local reasons, become fixed, and then predispose a society toward more important cultural choices. ...their significance constitutes an important unanswered question.¹⁷³

In the last three decades, the world has seen two significant events occur in the East Asia region. Some argued that the first event makes many East Asians feel proud to be Asian, while the second event, to an extent, brought shame to Asians. The Asian economic miracle and the Asian economic crisis have caused the East Asia region to be the subject matter of many discussions and research around the world. The main focal point in these discussions and research is the philosophy of Asian values. Questions such as does culture really matter, and does culture affect human development, are often being asked. This thesis has, in its own way, provided some of the answers to those questions. Culture does matter and significantly influences human development. Culture could be equated to a double-edged sword. If used correctly, it will work to your benefit, but, on the other hand, if misused, it could hurt you. The Asian economic miracle and Asian economic crisis is a good realization of the double-edged sword analogy.

In order to recover from the injuries suffered during the Asian economic crisis, some argued it has led East Asians to put aside their differences and come together to form a new regional institution, the ASEAN+3. This new regional institution has managed to bring all Northeast Asia states and Southeast Asia states to the same negotiating table. Interestingly, the ASEAN+3 has, for the first time, brought China and Japan to the same table.

¹⁷³ Jared Diamond, 1997, *"Guns, Germs, and Steel"*, New York: Norton, pp. 417-419.

There has been an increase in bilateral and multilateral economic cooperation between and among East Asian states subsequent to the formation of the ASEAN+3. The idea of an East Asia Free Trade Area (EAFTA) has been discussed extensively. If this idea can transpire in the near future, it will significantly impact the future outlook of the global economy.

This chapter concludes the discussion on whether the philosophy of Asian values and the Asian economic crisis stimulated the establishment of the ASEAN+3. The second section of the chapter summarizes the findings of the thesis questions, highlighting the relevancy of the philosophy of Asian values and the Asian economic development model to the East Asia region. Finally, recommendations for the development of the ASEAN+3 are provided as well as suggestions for areas of future research on this topic.

B. RESEARCH QUESTIONS

Two questions were raised when embarking on this study. The first was, whether the Asian economic crisis influenced the establishment of the ASEAN+3, and the second is whether the philosophy of Asian values influenced the establishment of the ASEAN+3. These two issues are so intertwined that it is nearly impossible to discuss one issue without encroaching into a discussion of the other, which is evidenced during the discussions in Chapters III and IV. An attempt was made to distinguish between the two issues during the discussion in this thesis to the extent possible.

The discussion on the topic of the Asian economic crisis highlighted arguments by some commentators for and against the Asian economic development model, the discussion on the causes of the economic crisis, its recovery and finally the discussion on the relationship between the Asian economic crisis and the establishment of the ASEAN+3.

The argument against the Asian economic development model can be summarized as the Asian economic development model is based on a flawed financial system. The model promotes paternalism, nepotism, cronyism and corruption, or in short, it created “crony capitalism”. This moral hazard undermined the efficient running of East Asia

economies. Government interventions in the market caused the lack of initiative and transparency in business dealings by private and public businesses. These moral hazards to an extent caused the Asian economic crisis.

On the other hand, the arguments for the Asian economic development model claimed that “crony capitalism” was not the cause of the Asian economic crisis. Instead, they claimed it was caused by market panic. The swift change in expectations by investors was the catalyst for massive capital outflows that triggered the crisis in Thailand and quickly spread to Indonesia, Malaysia, the Philippines and South Korea. The East Asia countries were too slow to fully respond to the rapidly globalizing financial markets and failed to formulate appropriate actions. Some believed that the severity of the crisis could have been reduced if the East Asian governments had taken more drastic measures earlier in the crisis.

As regards the discussion of Asian economic recovery, it is argued that the recovery started as early as 1999, and by 2000, the East Asian economies had rebounded to their pre-crisis growth rate of six to ten percent per annum. This impressive recovery of Asian economies shed some light on the argument of the causes of the Asian economic crisis. Besides external factors, such as a strong global economy and increased exports of East Asian goods by the United States during the early period of recovery, the practices of the philosophy of Asian values such as “strong states” capable of implementing policies directing the economy and effective intervention by governments in the capital market, appear to have contributed to the quick recovery of most Asian economies.

As regards the relationship between the Asian economic crisis and the establishment of the ASEAN+3, the economic crisis had played a significant role in influencing the leaders of East Asia to engage in communicative processes, which led to the establishment of a new institution, the ASEAN+3. East Asians saw the Asian economic crisis as a result of a common threat to their economic well-being. East Asians believed that the West was ganging up on them to undermine the East Asian economies. The flawed policy advised by the IMF exacerbated the economic crisis, and was used as evidence to support this belief. This stimulated that the East Asian leaders were to engage in a “Politics of Resentments”. East Asians, realizing that they were facing a

common threat and would suffer a common fate if they failed to take proper action, despite their differences, cooperated to establish the ASEAN+3. This new institution is believed to be a mechanism to bring about closer cooperation amongst East Asians in the political, economic, social and cultural arena. The long-term vision of the ASEAN+3 is to create an East Asian community.

To conclude the discussion of the Asian economic crisis, it can be argued that the Asian economic development model would remain relevant and important to East Asian economies in the future. However, because of the Asian economic crisis, some fundamental principles of the model seem questionable and need to be revised or modified. The causes of the Asian economic crisis almost certainly follow the panic-induced theory. However, “crony capitalism” must be avoided in order for East Asians to compete successfully in the fast and fluid global market economy in the future. Finally, the Asian economic crisis no doubt influenced the establishment of the ASEAN+3.

The second question that was discussed in this thesis is whether the philosophy of Asian values stimulated the establishment of the ASEAN+3. The discussion on this topic covers the debate over the philosophy of Asian values and East Asian regionalism. The discussion about the debate over the philosophy of Asian values examined whether the Asian economic crisis settled the debate over Asian values. Many western commentators believed that the Asian economic crisis marked the end of the debate. They claimed that the liberal democracies and free market economy prevailed over the philosophy of Asian values and the Asian economic development model. The severity of the Asian economic crisis caused tremendous negative effects not only on Asian economies but it also affected the political stability of some Asian countries, as well as their social and cultural lives. Most commentators were convinced that this was the end of the debate and that the philosophy of Asian values would “wither away” claimed a western commentator.

Instead of withering away, the opposite has occurred with the leaders of East Asia coming together to form a new regional institution, the ASEAN+3. This development triggered more bilateral and multilateral arrangements between and among East Asia states. The idea of an East Asia Free Trade Area was discussed and studied at the ASEAN+3 summit meeting. There is a possibility that this idea may become a reality.

Some commentators see the establishment of the ASEAN+3 as reactionary regionalism and some called it the politics of resentments. The East Asian leaders, perceiving that Asian economies are under a common threat, call for a united East Asia to fight against this common enemy. Homogeneity seems to be basis for the formation of the ASEAN+3 since Australia and New Zealand were not included as members even though geographically these two countries are within the East Asia region.

To conclude the discussion on the second issue, it can be argued that the Asian economic crisis did not settle the debate. The Asian economic crisis has made East Asians realize that they need each other to overcome a crisis of such magnitude. This led to the establishment of the ASEAN+3, and the potential creation of EAFTA, the world's largest RTA. The philosophy of Asian values is not merely a set of common norms but a set of values that affects policies. It will play a role in shaping the development of the ASEAN+3 in the future.

C. RECOMMENDATIONS

The following recommendations need to be given consideration in the development of the ASEAN+3.

- All ASEAN+3 members must adhere to the ASEAN Way and the principle of non-interference in its intra and inter-state interactions, especially during its early stages of development so as to avoid the creation of unnecessary tension.
- The philosophy of Asian values must be recognized officially by the ASEAN+3 and included in its governing documentation.
- The Asian economic development model must not tolerate corruption and, rules and regulations must be established to make public dealings, and to an extent, make private dealings transparent.
- The Chiang Mai Swap Arrangement must be developed further to provide for greater capability to react to the attack of currency speculators.
- The establishment of EAFTA needs to be speeded up.
- The ASEAN+3 summit must be renamed to East Asia Summit in order to help build an East Asia community.
- The ASEAN+3 must work toward the establishment of an Asia Monetary Fund in order for East Asia to be more independent of external factors that can undermine the unity of its formation.

Finally, research on the possibility of the creation of the EAFTA and East Asia community would provide researchers with further arguments relating to the advantages and disadvantages of the philosophy of Asian values.

D. CONCLUSION

The philosophy of Asian values will remain relevant to East Asians in the future. These values must be nurtured for them to be appreciated by the younger generations in the future. The philosophy of Asian values is not merely a set of common norms but a set of values that affect policies. The philosophy of Asian values must not be seen as static but must be pragmatic and take into consideration the fast development-globalizing world. East Asians must preserve their Asian cultural values, and at the same time, strive to achieve modernization. It must not be wrongly interpreted that one must be sacrificed in order to achieve the other. Political, economic and cultural values must be harmonized, and only then can a country really claim that they are a modern and civilized country.

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